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CROSS-NATIONAL STUDY OF
SAUDI-ARABIAN AND BRITISH MANAGEMENT

Submitted by Saud Saleh Islam M.Sc. (UMIST)

for the degree of Ph.D.


of the University of Bath, Avon, Britain,

1981

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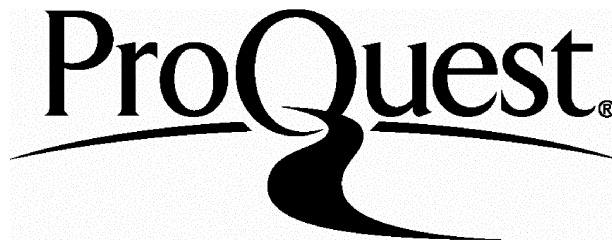
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PART ONE

SAUDI ARABIA : THE BACKGROUND

PART ONE

SAUDI ARABIA: THE BACKGROUND

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SUMMARY

Objectives of this comparative cross-national management study include confirmation that managerial practice is affected by and differs with the societal environment, exploring management transferability, and identifying key Saudi Arabian environmental constraints.

Practical limitations dictated that only management elements offering sharpest cross-national contrasts be considered. Saudi Arabian management data is sparse hence this work primarily contributes to data building and is exploratory, descriptive and slanted towards Saudi Arabia.

Part One is a reference guide to Saudi Arabia, Part Two covers the literature survey, research methodology and research results.

Delphi investigations were conducted to identify Saudi environmental constraints. A Negandhi-Prasad framework was applied for investigating selected management aspects.

Problems of matching, accessibility and data reliability resulted in a final sample of four paired case-studies. The sample alone cannot be claimed as representative, but combined with other factors we felt there was justification for some conclusions.

Educational-cultural factors with ^a15-30 per cent literacy level were identified as key Saudi environmental constraints. Sociological-cultural factors followed ^{and} include uncertainty towards change. Economic constraints include lack of capital markets, inefficient banking and uncertainty towards interest rates and insurance. Significant legal-political constraints include overcentralization, red tape and bureaucracy.

Case studies identified patterned management differences that may be related to environmental differences. Significant Saudi external company interactions include greater owner involvement, greater bureaucratic Government interactions and negligible interaction with industry and community.

Saudi company organization was autocratic and centralized. The planning concept was not fully appreciated. A misconception of control was apparent confusing it with power and authority.

Saudi manpower management suffers neglect. Saudi companies displayed inefficient recruitment, offered no training, lacked manpower planning, adopted opportunistic compensation policy and suffered high staff turnover.

In conclusion we agree that the management transfer issue is one of varying degrees of universality and transferability-transfer being concept, country and time-dimension dependant.

CHAPTER I

1. SAUDI ARABIA: GEOGRAPHY, CLIMATE & PEOPLE

The Kingdom of Saudi Arabia is located in the Arabian Peninsula occupying an area of over 772,000 square miles - 1.0 m.sq.km. - or about nine times the United Kingdom area. Its Western seaboard runs for 1,094 miles (1760 km) along the Red Sea and in the east there is a 350 mile (560 km) stretch of coastline along the Arabian Gulf. Saudi Arabia is divided into four main geographical areas - Najd, Al-Hijaz, Asir and Al-Hasa. The capital of Saudi Arabia is Riyadh. The neighbours of Saudi Arabia include Jordan, Iraq, Kuwait, Qatar, Yemen and Hadramout. In the former neutral zones, now equally divided, natural resources are shared.

The forbidding arid wastes occupy the largest area of the country. The extent of the Rub'Al Khali, the empty quarter of Great Sandy Desert cannot be accurately estimated since there are no marked boundaries. Along the Red Sea coast there is a narrow plain composed mainly of marshlands and lava fields, varying in width from nine to forty miles (15 to 64 km). East of the marshlands runs a high mountain range of 9,022 feet (2,750 metres) which separates the coastal plain from the Empty Quarter. Silt-bearing waters from these mountains flood the plains and create fertile land. To the North-East stretches the Najd plateau and to the east the desert of Al-Dahna which extends to the

Arabian Gulf.

Saudi Arabia has a desert climate with, hot dry summers and cold winters extremely low humidity and rainfall (7 to 17 cm per year). Coastal cities such as Jeddah have very high humidity. Temperatures in the interior may rise in summer above 120F (48.9C), which in winter they tend to drop to between 30F (-1.1) and 55F (12.8C). A special phenomenon which occurs in late spring and early summer is the shammals. These are strong north-westerly winds which create sand and dust storms. No official census of the country has ever been published. A census was undertaken in 1975 but the government seemed reluctant to accept it and another census will probably be undertaken. It is estimated that the population is between five and seven million. The great majority of the inhabitants are Arab, although there are small ethnic groups who originally entered the country on pilgrimages or in pursuit of work or trade. These ethnic groups - all muslims, have played important roles in the economy.

The rate of population growth is about 1.7% (a higher percentage growth rate has recently been declared) and recent estimates indicate that 50% of the population is nomadic or semi-nomadic, 20% settled cultivators and 30% urban settlers.

The Saudi government adheres to a lunar calendar, the Islamic hijra calendar which has 354 days divided into

twelve months. The government's fiscal year begins midway through the hijra year. A conversion table is shown in Table 1.

Table 1: CONVERSION OF HIJRA YEARS AND FISCAL YEARS TO GREGORIAN DATES

Hijra Year (Muharram Through Dhu al Hijjah)	Gregorian Date Starts	Hijra Fiscal Year (1 Rajab Through 30 Jumada II)	Gregorian Date Starts
1389	March 19, 1969	1389/90	September 12, 1969
1390	March 9, 1970	1390/91	September 2, 1970
1391	February 26, 1971	1391/92	August 22, 1971
1392	February 15, 1972*	1392/93	August 10, 1972
1393	February 4, 1973	1393/94	July 30, 1973
1394	January 23, 1974	1394/95	July 19, 1974
1395	January 13, 1975	1395/96	July 9, 1975
1396	January 2, 1876*	1396/97	June 28, 1976

cont.

1397	December 22, 1977	1397/98	June 16, 1977
1398	December 11, 1978	1398/99	June 6, 1978
1399	November 30, 1979	1399/1400	May 26, 1979
1400	November 19, 1980*	1400/1401	May 15, 1980

* Leap year.

Source: Area Handbook for Saudi Arabia,
Foreign Area Studies,
The American University,
5010 Wisconsin Avenue, N.W.,
Washington, D.C. 20016.

CHAPTER II

SAUDI ARABIA: THE POLITICAL ENVIRONMENT

Review of the Political-Legal Framework

Saudi Arabia is an absolute monarchy with the King at the Head of the government. There is a council of ministers or cabinet which in the King's absence is presided over by the Crown Prince. Succession is not clearly defined but the Crown Prince is normally the immediate younger brother of the King. Key cabinet posts such Defence, Interior and Foreign Affairs are traditionally held by members of the Royal Family. Other posts such as Health, Transport and Agriculture tend to be held by commoners. Ministers are responsible to the King and the apparatus of Modern Government such as Ministries, Civil Service and Budgetary have been rapidly built up in less than a decade. Saudi Arabia in it's present form was established in 1932 by the late King Abdul Aziz Ibn Saud by the military unification of the country then consisting of the four separate regions of the Hijaz, Najd, Asir and Al-Hasa. King Abdul Aziz died in 1953 leaving many sons who today constitute the ruling Royal Family of Saudi Arabia.

The power of law over business is very much a function of a country's political structure and in Saudi Arabia political and legal concepts are rooted in the body of precepts and

prohibitions known as the Sharia. The Sharia is derived from the Holy Koran and from interpretations of the saying of the prophet Mohammed (d. 632 A.D.) as explained and expanded by various schools of classical jurists. Only where specific decrees have displaced Sharia law can businessmen rely on modern concepts incorporated in decrees as for example in the field of corporations, banking and labour relations. But inspite of the relatively recent codifications, e.g. the Banking Control Law June 1966 and the Labour Law of November 1969 - a labour dispute which is not covered by specific provision in the codified regulations would see final recourse in the Sharia.

Since Islam upholds private ownership of property and the freedom to trade - the prophet was himself a merchant - Saudi Arabia has more in common with the Free Enterprise systems of the West than the Socialist systems of the Eastern Bloc.

The Saudi government tries not to interfere with the private sector except where consumer protection is called for.

There are no political parties in Saudi Arabia and there is no vote. Unions are illegal. There are no limits on the accumulation of wealth and no income tax. Taxation mostly based on the religious Zakat tax is insignificant. Such insignificant tax is made possible by the fact that the government is the main receipient of the vast oil revenues which are then utilized in infra-structure, social

and civil services payments, Defence, Education, Health etc.

In foreign policy Saudi Arabia takes a moderate conservative approach. It is constantly using it's good offices with the US in efforts to bring about peace in the Middle East. On the question of Palestine the Saudi government supports the rights of the Palestinians to a National Homeland. The government is also strongly anti-communist and there are no diplomatic relations with any communist country. More recently Saudi Arabia has been very prominent in the role of financial aid donor to third world less developed countries.

Saudi Arabia is also the largest oil-producing member of OPEC - Oil Producing Exporting Countries - and has been a significant force for moderation in OPEC's oil pricing policies.

Table 2: WORLD OIL PRODUCTION

(Million barrels)

	<u>1977</u>		<u>1979</u>	
	<u>Quantity</u>	<u>% Share</u>	<u>Quantity</u>	<u>% Share</u>
World Total	22,671	100.0	22,890	100.0
OPEC	11,468	50.6	10,908	47.6
of which				
Saudi Arabia	3,358	14.9	3,038	13.2
USSR	4,013	17.7	4,204	18.4
USA	3,576	15.8	3,751	16.4
ROW	3,614	15.9	4,027	17.6

Source: Petroleum Economist, September 1979.

CHAPTER III

THE ECONOMIC ENVIRONMENT

1. Economic History

Saudi Arabia is a relatively new state. Saudi economic activity prior to 1924 consisted mainly of the traditional goat and camel herds and the raiding of neighbouring tribes. Some subsistence agriculture also existed. Only Jeddah and Mecca, the cosmopolitan cities, proved exceptions to the rest of the peninsula life-style for they were merchant cities of old, located on the ancient trade routes over which spices, silk, jewelery and metalware from India and the Orient were transported from the Yemen in the South up to Damascus in the North.

In about three decades, following its establishment and the discovery of oil, Saudi Arabia had undergone a major transformation into the twentieth century with the development of a modern economy, albeit an economy dominated by oil. During this period, Riyadh in central Najd and today's capital, Medina to the North of Jeddah, and Dhahran, Dammam and Al-Khobar in the eastern region of Al-Hasa province - the oil centre - had all developed into important centres of economic activity. Jeddah and Mecca in the western Hejaz region by the Red Sea still retain their importance however; Jeddah as the Kingdom's

main port on the Red Sea and the country's Commercial centre and Mecca as the Holy City where upwards of one million muslims from all over the world pass annually during the Hajj pilgrimage season.

2. Introduction to the Modern Economy

The Saudi economy is one that is dominated by a single commodity, namely oil, most of which is exported. Oil revenues represent the major source of government revenues, and variations in the level of oil production or the international price of oil can have significant effects on the size of government receipts which in turn can affect the level of economic activity in the country, particularly as government expenditure is the main source of domestic economic activity. The holding of a higher than usual ratio of foreign exchange reserves to imports is partly for the purpose of protecting the economy from such fluctuations in government receipts . The government being the main receipt of the oil revenues would disburse the funds into the economy paying out government salaries and initiating development spending in physical and social infrastructure. It has also set up many specialised credit institutions to make up for the lack of a development financial structure in Saudi Arabia. These include credit institutions to assist house ownership, industrial and agricultural development as well as credit assistance to private contractors and investors in apartment blocks, hotels and private hospitals. The government also undertakes its own expenditure on state hospitals,

schools, communications etc. as described under physical and social infrastructure expenditure. There is little or no tax in Saudi Arabia, and the state through its oil revenues maintains a fast-improving welfare system including free state education and medical treatment, subsidized food, subsidized air-travel and interest-free loans for special purposes. The presence of a large population of foreigners in Saudi Arabia has increased demand on the government services, which is nonetheless expanding.

Saudi oil revenues increased from about 15.4 billion SRs (¥4.3 billion) in 1973 to about 80.1 billion SRs (¥22.6 billion) in 1974 after the four-fold increase in the international price of oil. Government revenue thus, increased by about five times. The government accordingly doubled expenditure for development in fiscal year 1974 - 75 and increased them to another one and a half times the next year. The resulting public demand fueled private demand which in turn put a strain on the country's social and physical facilities and thereby by creating bottlenecks brought about severe inflation in the mid 1970's.

Inflation was brought under control by a combination of measures but most significantly by a crash programme to ease port bottlenecks, by the relaxation of the inward flow of foreign labour and most important by freezing government expenditure at existing levels (the government budget was held constant between mid-1975 to mid-1978 at 31 billion US dollars annually). Government expenditure

is a powerful force in the Saudi economy.

Table 3 compares oil production with oil revenues and government expenditure for the last few years. The effect of international oil price rises can be seen in Table 3. Thus an increase of 570.6 million barrels in 1973 produced a revenue increase of 695.4 million dollars while a smaller production increase in 1974 of 322.5 million barrels - the year of the fourfold oil price increase - produced a revenue increase of 18.23 billion dollars. Furthermore a drop in oil production in 1975 by 512.6 million barrels still produced an increase in revenue by 3.1 billion dollars reflecting price adjustments while a drop in production in 1978 of 320 million barrels resulted in a drop in revenue of 4.31 billion dollars reflecting the Saudi policy of holding its oil price steady despite increases by other OPEC states. In 1979 a significant rise in production by 768 million barrels together with a doubling in the international price of Saudi oil brought about a massive increase in oil revenues to an estimated 68 billion US dollars.

Table 3: COMPARISON OF ANNUAL OIL PRODUCTION LEVELS WITH OIL REVENUES AND GOVERNMENT BUDGETED EXPENDITURE 1972 - 1978

	Oil Production (in million barrels)	Increase (million barrels)	Oil revenue (billions)		Increase US\$ billion	Government budgeted expenditure (billions)	
			SRs	US\$		SRs	US\$
1972	2,202		10.13	2.74			
1973	2,772.6	570	15.41	4.34	0.695		
1974	3,095.1	322.5	80.1	22.57	18.23	45.74	12.86 (1974/75)*
1975	2,582.5	-512.6	90.32	25.68	3.10	110.93	31.50 (1975/76)
1976	3,139.3	+556.8	108.57	30.75	5.08	110.93	31.43 (1976/77)
1977	3,358.0	218.7	128.81	36.54	5.78	111.40	31.60 (1977/78)
1978	3,038.0	-320	09.6	32.23	-4.31	130.00	38.24 (1978/79)
1979	3,806.0 ^e	768	229	68.00 ^e	35.76	160.00	47.62 (1979/80)

Source: SAMA Annual Report 1979.

Exchange rates: 1973 - 1978: 1973 - \$ 1 = SR 3.69 1977 - \$ 1 = SR 3.5251
 1974 - \$ 1 = SR 3.55 1978 - \$ 1 = SR 3.3996
 1975 - \$ 1 = SR 3.5176 1979 - \$ 1 = SR 3.3608
 1976 - \$ 1 = SR 3.530 1980 - \$ 1 = SR 3.3600

* Fiscal years.

e Estimate.

3. National Accounts

The state and progress of the modern Saudi economy is best observed by an examination of some national accounts, particularly Gross Domestic Product and Gross Domestic Product-related figures. Furthermore some idea of the economy's performance may be derived by observing the results of the state's five year development plans against state targets. Saudi Arabia has a Ministry of Planning which started the country's First Five Year Development Plan 1970 - 1975 and then followed with the Second Development Plan 1975 - 1980. Saudi Arabia is about to start its Third Five Year Development Plan 1980 - 1985.

Saudi Gross Domestic Product at constant 1389/90 (1969/70) prices in 1390/91 (1970/71) was 19.6 billion* Saudi Riyals (SRs) with the oil sector contributing 11.5 billion SRs or 59%, the non-oil private sector contributing 5.8 billion SRs and the non-oil government sector contributing 2.3 billion SRs equivalent to 29.3% and 11.7% respectively. This was the first year of the First Development Plan (1970-1975).

Nine years later Saudi Gross Domestic Product in 1398/99 (1978/79) at constant prices stood at 45 billion SRs**

* US \$ 1.00 = SR 4.45 (1970/71)

** US \$ 1.00 = 3.399 SRs (1978)
US \$ 1.00 = 3.360 SRs (1979)

with the oil sector contributing 48.9%, the non-oil private sector 34.3% and non-oil government sector 16.8%.

However GDP at current prices in 1390/91 (1970/71) was 22.6 billion SRs while GDP at current prices in 1398/99 (1978/79) was 255.5 billion SRs (equivalent to 75.6 billion US dollars). The anticipated GDP for 1979/80 was estimated at 376.3 billion SRs or 112 billion US dollars. GDP per capita (using recent IMF population data) for 1978/79 was 9,603 US dollars and the equivalent forecast for 1979/80 is 13,750 US dollars*.

Table 4 gives Gross Domestic Product in Producers Value by the three main sectors (Oil, Non-oil private and Non-oil government) for the fiscal years 1394/95 (1974/75) to 1398/99 (1978/79) and is a convenient summary for the progress of GDP at current prices and at constant prices.

The compounded growth rates in real terms for the three main sectors over the First Development Plan (1970-75) can be seen in Table 7. The oil sector target was for a real growth of 9.1%, while realized growth was 14.9%. The non-oil private sector growth target was 12.0% while realized was 11.0%. The government sector First Plan growth target was 7% while realized growth was 7.8%. For the First Plan as a whole the target growth was 9.8% while the realized growth was 13.5%.

* US Embassy internal report April 1980

Real growth rates over the first four years of the Second Development Plan for the three main sectors were 3.7%, 16.2% and 15.8% against growth targets of 9.7%, 13.4% and 12.9%. Overall Second Development Plan (1975/80) growth was 9.2% against a target of 10.2%. This lower growth compared to target was mainly due to reduced real growth in the oil sector due to circumstances exogenous to the Saudi economy.

Tables 8 and 9 give Saudi Gross Domestic Product by individual economic activity at current and constant prices for the fiscal years 1394/95 (1974/75) to 1397/98 (1977/78).

It can be seen that total employment at end 1395 (1975) was 1.522 million people. The projection for 1980 is shown as 2.33 million. In fact, actual total employment is expected to exceed the shown figures for 1400 (1980) mainly through a greater influx of immigrant guest labour.

Looking at Tables 8 and 9 to ascertain the relative contributions for each individual economic activity we can note the following:

The share of the oil sector at constant prices (gas and refining) declined from about 60.0% in 1394/95 (1974/75) to 51.7% in 1397/98 (1977/78), a healthy development for the economy. Table 7 shows that this sector did not achieve its targeted growth of 9.7% during the Second Plan;

in the first year actual growth was 1.1%, in the second year it was 13.2%, in the third year it was -0.5% and in the fourth it was 1.8% (overall a 3.7% average) see Table 6. 45600 people worked in this sector by 1395 (1975) and the projection for the year 1400 (1980) was 62100. This lower growth was due to factors exogenous to the economy.

The government sector's share of real GDP moved from 13.4% in 1394/95 (1974/75) to 16.0% in 1397/98 (1977/78).

Target growth over the Second Plan was 12.9% while actual growth was about 15.8%. 357200 were employed by 1395 (1975) with 650600 projected, at end of 2nd plan.

The agricultural sector contributed 3.2% of real GDP in 1397/98 (1977/78), a slight decline from the 3.7% share of 1394/95 (1974/75). Target growth for the Second Plan was 4% while realized growth over the first three years was 5%. Total employed by end of 1395 (1975) was 426000 with a projection of 395100 for 1400 (1980).

The manufacturing sector contributed 2.6% of real GDP in 1397/98 (1977/78). The Second Plan target growth was 14% while realized targets for the first three years was 8.2%, 13.6% and 8.7% respectively. There were 46500 people employed in this sector by 1395 (1975) while projected employment by end of 1400 (1980) was estimated at 77500.

The transport and communication sector contributed 5.6% of real GDP in 1397/98 (1977/78). The Second Plan target growth rate for this sector was 15% while realized growth

for the first three years was 22.6%, 22.1% and 22.7%. There were 103200 people employed by 1395 (1975) with a 1400 (1980) projection put at 165200.

The construction sector which is the barometer of Saudi economic activity (60% of the Second Plan budget allocation was earmarked for construction) contributed 10.9% of real GDP in 1397/98 (1977/78). Target growth for this sector over the Second Plan was 15% while actual growth over the first three years was 34.5%, 25.3% and 10.5%. There were 314200 people employed by end 1395 (1975) with a projection of 591000 by 1400 (1980).

The trade, restaurants and hotel sector contributed 8.5% of real GDP in 1397/98 (1977/78). Target growth for the Second Plan was 15%. Looking at Table 9 it can be seen that for the first three years of the plan this target was exceeded.

The finance, real estate and insurance sector including other business services contributed 8.3% of real GDP in 1397/98 (1977/78) of which ownership of dwellings took up 6.1%. The Second Plan target growth for this sector was 15%. Looking at Table 9, it would seem that this target was achieved for the first three years. Total employment in all commerce by 1395 (1975) was 210,000 and was expected to reach 361400 by the year 1400 (1980).

Table 10 gives gross domestic expenditure for the fiscal 1394/95 (1974/75) by amount and percentage share for

Consumption expenditure, Gross capital formation expenditure and Net Export of goods and services. It can be seen that the share of consumption expenditure has increased from 24.2% in 1394/95 (1974/75) to 43.8% in 1397/98 (1977/78). The growth of fixed capital formation has been quite equally rapid and in the latest year it constituted 30% of GDE. The combined growth of these two components has been at the expense of net export surplus which has steadily declined from 63% in 1394/95 (1974/75) to 26% in the latest year.

Table 11 gives gross capital formation by the three main sectors, oil, non-oil private and non-oil government, for the above four years. It can be seen that the government share increased from 41.3% in 1394/95 (1974/75) to 60.3% in 1397/98 (1977/78). The private sector share declined from 38.2% to 27.7% for the same years while the oil sector share declined from 20.5% to 12%.

Table 12 shows gross capital formation by type of capital goods with construction at 77.3% in 1397/98 (1977/78), transport equipment at 9.3% and machinery equipment at 11.6%. The dominance of the construction sector is clear.

Table 4: GROSS DOMESTIC PRODUCT IN PRODUCERS VALUE BY MAIN SECTOR:

		(Billion Riyals)					
		1394/95 1974/75	1395/96 1975/76	1396/97 1976/77	1397/98 1977/78	1398/99 1978/79	
At Current Prices:							
1.	GDP (Exc. Import duties)	139.22	163.89	203.94	22.16	255.46	
2.	Oil Sector	111.10 (79.8)*	116.57 (71.1)	136.25 (66.8)	133.93 (60.3)	145.86 (57.1)	
3.	Non-Oil Sector	28.12 (20.2)	47.32 (28.9)	67.69 (33.2)	88.23 (39.7)	109.61 (42.9)	
a)	Private	18.25 (13.1)	28.38 (17.3)	40.22 (19.7)	49.23 (22.2)	58.97 (23.1)	
b)	Government	9.87 (7.1)	18.94 (11.6)	27.47 (13.5)	39.00 (17.5)	50.64 (19.8)	

* Percentage shares are in brackets.

Source: Ministry of Finance, Central Department of Statistics 1979.

Table 5: GROSS DOMESTIC PRODUCT IN PRODUCERS VALUE BY MAIN SECTOR: (Billion Riyals)

	1394/95 1974/75	1395/96 1975/76	1396/97 1976/77	1397/98 1977/78	1398/99 1978/79
At Constant 1389/90 Prices:					
1. GDP (Exc. Import duties)	31.54	34.25	39.32	41.64	44.78
2. Oil Sector	18.90 (60)*	19.11 (55.8)	21.63 (55)	21.51 (51.7)	21.90 (48.9)
3. Non-Oil Sector	12.64 (40)	15.14 (44.2)	17.69 (45)	20.13 (48.3)	22.88 (51.1)
a) Private	8.44 (26.6)	9.94 (29)	11.82 (30.1)	13.46 (32.3)	15.36 (34.3)
b) Government	4.20 (13.4)	5.20 (15.2)	5.87 (14.9)	6.66 (16.0)	7.52 (16.8)
Implicit Delators:					
1. GDP (Exc. Import duties)	4.41	4.79	5.19	5.34	5.70
2. Oil Sector	5.88	6.10	6.30	6.23	6.66
3. Non-Oil Sector	2.23	3.13	3.83	4.38	4.79

* Percentage shares are in brackets.

Source: Ministry of Finance, Central Department of Statistics 1979.

Table 6: SECOND PLAN GROWTH RATES (Annual rates of real growth)

	Average Annual Plan Projection	1st Year actuals 1395/96 1975/76	(r)	2nd Year actuals 1396/97 1976/77	(r)	3rd Year actuals 1397/98 1977/78	(p)	4th Year actuals 1398/99 1978/79	(p)
GDP	10.2	8.6		14.8		5.9		7.6	
Oil Sector	9.7	1.1		13.2		-0.5		1.8	
Non-Oil Private Sector	13.4	17.8		18.9		13.9		14.1	
Agriculture	4.0	4.0		5.0		6.0		-	
Manufacturing	14.0	8.2		13.6		8.7		-	
Construction	15.0	34.5		25.3		10.5		-	
Transport, Communication and Storage	15.0	22.6		22.1		22.7		-	
Government Sector	12.9	23.9		12.9		13.5		12.9	

r = revised. p = preliminary.

Source: Second Development Plan; Planning Ministry for projections and Central Department of Finance for actuals.

Table 7: FIRST AND SECOND PLAN FIGURES (Growth rates--real)

	First Plan Projection	First Plan Realized	Second Plan Projection	Second Plan Realized (4 years)
GDP	9.8%	13.5	10.2	9.2
Oil Sector	9.1	14.9	9.7	3.7
Private Sector	12.0	11.0	13.4	16.2
Agriculture	4.6	3.6	4.0	-
Manufacture	14.0	11.6	14.0	-
Construction	10.4	18.6	15.0	-
Transport and Communication	12.9	17.0	15.0	-
Government Sector	7.0	7.8	12.9	15.8

Source: Saudi Arabian Monetary Agency 1976 and 1979 annual reports.

Table 8: SAUDI GROSS DOMESTIC PRODUCT BY INDIVIDUAL ECONOMIC ACTIVITY
(at current prices in billion SRs)

Fiscal Year	<u>1394/95</u> <u>1974/75</u>	<u>1395/96</u> <u>1975/76</u>	<u>1396/97</u> <u>1976/77</u>	<u>1397/98</u> <u>1977/78</u>
A. Industries and Other Products:				
1. Agriculture, Forest Fishing	1.39 (1.0)	1.59 (1.0)	1.87 (0.9)	2.55 (1.0)
2. Mining and Quarrying:				
a) Crude Oil and N. Gas	104.70 (75.0)	109.56 (66.6)	128.57 (62.6)	126.16 (56.4)
b) Other	26	53	82	1.02
3. Manufacturing:				
a) Petroleum Refining	5.77 (4.1)	5.96 (3.6)	6.22 (3.0)	5.91 (2.6)
b) Other	1.60	2.21	3.06	4.07
4. Electricity, Gas and Water	19 (0.1)	15 (0.1)	14 -	20 (0.1)
				cont.

5.	Construction	7.72 (5.5)	15.85 (9.6)	25.55 (12.4)	31.96 (14.3)
6.	Wholesale and Retail Trade, Rest, Hotels	3.90 (2.8)	6.18 (3.8)	8.51 (4.1)	11.05 (4.9)
7.	Transport, Storage and Communication	2.31 (.17)	4.08 (2.5)	6.77 (3.3)	9.96 (4.5)
8.	Finance, Insurance, Real Estate and Business Services:				
a)	Ownership of Dwellings	3.42 (2.5)	5.28 (3.2)	6.92 (3.3)	7.63 (3.4)
b)	Other	2.01 (1.4)	3.17 (1.9)	4.21 (2.0)	5.07 (2.3)
9.	Community Social and Personal Services	1.28 (0.9)	1.99 (1.2)	2.61 (1.2)	3.29 (1.5)

cont.

10.	Less Imputed Bank Charges	-32	-55	-93	-1.56
	Sub total:	134.23 (96.1)	156.00 (94.8)	194.22 (94.7)	207.02 (92.6)
B.	Producers of Government Services (Inc. Public Administration and Defence)	4.99 (3.6)	7.89 (4.8)	9.72 (4.7)	15.15 (6.7)
	GDP in Producers Value	139.22	163.89	203.94	222.16
	Import Duties	38	63	1.11	1.58
	GDP in Producers Value	139.60 (100.0)	164.53 (100.0)	205.06 (100.0)	223.75 (100.0)

Table 9: SAUDI GROSS DOMESTIC PRODUCT BY INDIVIDUAL ECONOMIC ACTIVITY
(at constant prices of 1398/90 (1969/70))

Fiscal Year	<u>1394/95</u> <u>1974/75</u>	<u>1395/96</u> <u>1975/76</u>	<u>1396/97</u> <u>1876/77</u>	<u>1397/98</u> <u>1977/78</u>
A. Industries and Other Products:				
1. Agriculture, Forest and Fishing	1,174) (3.7)	1,221 (3.5)	1,282 (3.2)	1,359 (3.2)
2. Mining and Quarrying:				
a) Crude Oil and N. Gas	17,339 (54.6)	17,510 (50.8)	19,852 (50.1)	19,650 (46.9)
b) Other	96	112	134	147
3. Manufacturing:				
a) Petroleum Refining	1,300 (4.1)	1,359 (3.9)	1,523 (3.8)	1,591 (3.8)
b) Other	721 (2.3)	828 (2.4)	956 (2.4)	1,102 (2.6)
4. Electricity, Gas and Water	322 (1.0)	345 (1.0)	414 (1.0)	546 (1.3)
5. Construction	2,461 (7.8)	3,309 (9.6)	4,146 (10.5)	4,582 (10.9)

cont.

6.	Wholesale and Retail Trade, Rest, Hotels	1,920 (6.0)	2,331 (6.8)	2,881 (7.3)	3,555 (8.5)
7.	Transport, Storage and Communication	1,289 (4.1)	1,580 (4.6)	1,929 (4.9)	2,367 (5.6)
8.	Finance, Insurance, Real Estate and Business Services:				
a.	Ownership of Dwell.	1,650 (5.2)	1,933 (5.6)	2,276 (5.7)	2,549 (6.1)
b)	Other	585 (1.8)	675 (2.0)	799 (2.0)	913 (2.2)
9.	Community Social and Personal Services	319 (1.0)	363 (1.1)	413 (1.0)	470 (1.1)
10.	Less Imputed Bank Charges	-59	-70	-99	-144
	Sub Total:	29,101 (91.7)	31,495 (91.4)	36,505 (92.0)	38,688 (92.3)
B.	Producers of Government Services (Inc. Public Administration and Defence)	2,438 (7.7)	2,755 (8.0)	2,813 (7.1)	2,953 (7.1)
	GDP in Producers Value	31,539	34,250	39,318	41,641
	Import Duties	184	211	350	263
	GDP in Producers Value	31,723 (100.0)	34,461 (100.0)	39,668 (100.0)	41,904 (100.0)

Source: SAMA 1979 annual report.

Table 10: GROSS DOMESTIC EXPENDITURES (billion SRs)

	<u>1394/95</u> <u>1974/75</u>		<u>1395/96</u> <u>1975/76</u>		<u>1396/97</u> <u>1976/77</u>		<u>1397/98</u> <u>1977/78</u>	
	Amount	% share	Amount	% share	Amount	% share	Amount	% share
Consumption	33.81	24.2	52.62	32.0	75.18	36.7	98.03	43.8
Gross Capital Formation	18.59	13.3	34.48	21.0	52.25	25.5	68.03	30.4
Net Export of Goods and Services	87.20	62.5	77.42	47.0	77.62	37.8	57.69	25.8
Total GDE	139.60	100	164.53	100	205.51	100	223.75	100

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Source: SAMA 1979 report, p 55.

Table 11: GROSS CAPITAL FORMATION BY SECTORS (billion SRs)

	<u>1394/95</u> <u>1974/75</u>		<u>1395/96</u> <u>1975/76</u>		<u>1396/97</u> <u>1976/77</u>		<u>1397/98</u> <u>1977/78</u>	
	Amount	% share	Amount	% share	Amount	% share	Amount	% share
Government	7.37	41.3	17.49	51.9	27.35	53.2	40.48	60.3
Non-oil Private Sector	6.81	38.2	10.79	32.0	16.75	32.6	18.60	27.7
Oil Sector	3.66	20.5	5.42	17.1	77.32	14.2	8.05	12.0
Total	17.84	100	33.70	100	51.42	100	67.14	100
Increase in Stocks	75		70		84		89	
Total GCF	18.75	34.48	52.24	68.03				

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Source: SAMA 1979 report, p 58.

Table 12: GROSS CAPITAL FORMATION BY TYPE OF CAPITAL GOODS (billion SRs)

	<u>1394/95</u> <u>1974/75</u>		<u>1395/96</u> <u>1975/76</u>		<u>1396/97</u> <u>1976/77</u>		<u>1397/98</u> <u>1977/78</u>	
	Amount	% share	Amount	% share	Amount	% share	Amount	% share
Construction	13.40	75.1	27.15	80.5	38.07	74	52.92	77.3
Transport Equipment	2.22	12.4	3.44	10.2	5.33	10.4	6.26	9.3
Machinery and Equipment	2.02	11.3	2.80	8.3	7.55	14.7	7.78	11.6
Other	20	1.2	31	1.0	47	0.9	1.180	1.8
Total Gross Fixed C.F.	17.84	100	33.70	100	51.42	100	67.14	100

Source: SAMA 1979 report, p 59.

4. The Government Budgets

As indicated in the introduction, the government budget plays a dominant role in the Saudi economy since the flow of regular income from oil started after the Second World War. The Government Budget for expenditure appropriations in 1389/90 (1969/70) - the year before the First Development Plan - was 6 billion SRs*. With the rapid rise in oil income thereafter, expenditure appropriations also rose steeply to 45.7 billion SRs* in 1394/95 (1974/75) - the last year of the First Plan - and to 110.9 billion in the first year of the Second Plan (see Table 2). Appropriations were held constant at this level for the next two years with the objective of countering inflationary pressures. However, when the rate of inflation had been brought down subsequently, expenditure appropriations were raised to 130 billion SRs and 160 billion SRs in the fourth and fifth years of the Second Plan 1398/99 (1978/79) and 1399/1400 (1979/80). Government expenditure appropriations have thus registered a compounded growth of about 22% over the entire period since the first post-War budget. The GDP at current prices is roughly estimated to have registered a growth of about 10 - 15% over this period. Comparing expenditure appropriation over the last fifteen years in five years periods, it may be seen that appropriations rose from 25.4 billion SRs in the five years before the First Plan to 99 billion SRs in the First Plan period and

* US \$ 1.00 = SRs 4.45 (1970)
US \$ 1.00 = SRs 3.5176 (1975)

and 623 billion SRs* in the Second Plan period (Table 13).

Actual expenditures, which are a more meaningful economic indicator, present a relatively different picture (Table 15). In the years before the First Plan, actuals tended to be close to appropriations. However during the later part of the First Plan period, after the steep rise in oil income, actuals began to lag behind the rapidly rising appropriations. With the accelerated rise in absorptive capacity, the gap was not only filled in the Second Plan but actuals have in fact tended to exceed the original appropriations because of supplementary allocations during the course of the fiscal years (compare Tables 14 and 15 for the years 1977/78 and 1978/79). Over the five years before the First Plan actual expenditures amounted to 24.8 billion SRs and comprised 98% of total appropriations (Table 13). In comparison actual expenditure over the First Plan was 74.4 billion SRs and constituted about three-fourths of total appropriation (Table 13). During the first four years of the Second Plan, actual government expenditures have been 495.5 billion SRs which is higher than the original appropriations of 463 billion SRs (Table 13).

* the revised figure after the jump in oil revenues in 1974/75
US \$ 1.00 = SRs 4.45 (1970)
US \$ 1.00 = SRs 3.55 (1974)

Table 13: BUDGETED AND ACTUAL EXPENDITURE IN FIVE-YEAR PERIODS (billion SRs)

	Budgeted Expenditure	Actual Expenditure
1. Five years before the First Plan 1385/86 - 1389/90 (1965/66 - 1969/70) of which first four years	25.42 19.48	24.80 18.77
2. First Plan 1390/91 - 1394/95 (1970/71 - 1974/75) of which first four years	98.91 53.17	74.37 42.33
3. Second Plan 1395/96 - 1399/1400 (1975/76 - 1979/80) of which first four years	623.27 463.27	- 495.48
US \$ 1.00 = SRs 3.69 (1973)		
US \$ 1.00 = SRs 3.55 (1974)		
US \$ 1.00 = SRs 3.5176 (1975)		
US \$ 1.00 = SRs 3.53 (1976)		
US \$ 1.00 = SRs 3.52 (1977)		
US \$ 1.00 = SRs 3.399 (1978)		
US \$ 1.00 = SRs 3.36 (1979)		
US \$ 1.00 = SRs 3.36 (1980)		

Source: SAMA 1979 Annual Report.

Table 14: BUDGET ESTIMATES 1977/78 - 1980/81
(billion SRs)*

	<u>1397/98</u> <u>1977/78</u>	<u>1398/99</u> <u>1978/79</u>	<u>1399/1400</u> <u>1979/80</u>	<u>1400/01</u> <u>1980/81</u>
Total Revenue	146.49	130.00	160.00	260
Oil Revenue	131.15	115.13	-	-
Other Revenue	15.34	14.87	-	-
Total Expenditure	111.40	130.00	160.00	240
Recurring Expenditure	36.53	46.95	54.32	-
Chapter I	17.11	21.42	23.00	-
Chapter II	7.28	9.30	12.99	-
Chapter III	12.14	16.22	18.33	-
Project Expenditure	74.87	83.05	105.68	-

* See Table 13 for exchange rates.

Source: SAMA 1979 annual report.

Table 15: GOVERNMENT ACTUAL REVENUE AND EXPENDITURE (billion SRs)

	$\frac{1394/95}{1974/75}$	$\frac{1395/96}{1975/76}$	$\frac{1396/97}{1976/77}$	$\frac{1397/98}{1977/78}$	$\frac{1398/99}{1978/79}$	$\frac{1399/1400^e}{1979/80}$
Total Revenue	100.10	103.38	135.96	130.66	132.87	250
Oil Revenue	94.19	93.48	121.19	114.04	115.52	230
Other Revenue	5.91	9.90	14.77	16.62	17.35	20
Total Expenditure	32.04	81.78	128.27	138.03	147.40	200

e = author's estimate.

Note: See Table 13 for exchange rates.

Source: Ministry of Finance and National Economy.

Thus for the first time in about a decade, budget expenditure for fiscal 1397/98 (1977/78) exceeded annual revenue by 7.5 billion SRs (Table 15). The following year's deficit was even higher at 14.53 billion SRs. These deficits were met by transfers from reserves. Thus in two years combined there was a deficit total of 21.9 billion SRs. However during the first four years of the Second Plan total revenue was 502.87 billion SRs exceeding total expenditure for the same four years of 495.5 billion SRs.

The budget for 1399/1400 (1979/80) the last year of the Second Plan estimated total revenues and expenditure at 160 billion SRs as compared with 130 billion SRs in the previous fiscal year. Of the total revenue, about 90% was expected from oil and 10% from custom duties, income tax on foreign companies and earnings from foreign assets. In fact actual revenue for 1399/1400 (1979/80) was estimated at about 249 billion SRs and actual expenditure at about 200 billion SRs*, (74 billion US \$ and 60 billion US \$ respectively)*.

Table 14 gives a breakdown of the budget outlays for 1977/78, 1978/79 and 1979/80 in terms of recurring expenditure - 34% - and project expenditure 66% for 1979/80. Recurring expenditure is spread over Chapters I, II and III corresponding to

* US embassy estimates April 1980

US \$ 1.00 = SRs 3.525 (1977)

US \$ 1.00 = SRs 3.399 (1978)

salaries and fringe benefits, supplies and services, subsidies and grants to universities and other autonomous bodies and foreign aid, while project expenditure made up Chapter IV. Table 16 compares budget estimates with allocated expenditure for the 1399/1400 (1979/80) budget.

Table 16: BUDGET ESTIMATES AND ALLOCATIONS FOR 1399/1400
(1979/8)

(billion SRs)

	Estimates	Allocated (A)
Defence and Security	56.61	59.21
Transport and Communications	23.74	25.32
Manpower Development	17.14	18.39
Municipal Facilities	na	12.72
Internal Credits	12.90	na
Economic Resources	12.90	14.76
Public Administration	10.35	13.10
Health and Social Services	9.19	9.84
Infrastructure	18.49	na
Local Subsidies	5.23	na
Others		
Total	166.01	216.00 (193.00 spent)

Source: Ministry of Finance, May 1980.

Table 17 gives the budget estimate for 1980/81. Significant increase in spending in most sectors is indicated in the record budget for fiscal year 1400/1401 (1980/81) which was approved by the Council of Ministers on 14 May, 1980. Aggregate expenditure is set at 245 billion SRs (74 billion dollars) or 48% higher than the original estimates for the previous year's budget and 27% above what was actually spent. Thus higher oil prices and the government's commitment to maintain output at 9.5 million barrels a day (b/d) have removed some of the constraints on development spending.

State revenues are projected to reach 261.3 billion SRs (79 billion US dollars) in 1980/81, although this estimate by the Ministry of Finance does not include the effect of the recent \$2 a barrel oil price increase. The US government Commerce Action Group for the Near East indicated that the increase would add 6.0 billion US dollars a year to revenue putting government surplus in 1980/81 at 11.1 billion dollars or more than double present Ministry of Finance estimates.

Spending on defence and internal security was fixed at about 70 billion SRs (about 20.7 billion US \$), the largest single slice, and a 16% increase over the previous year. Municipalities and Rural Affairs was fixed at about 20 billion SRs (about 6 billion US \$), a 55% increase. The transport and communications sectors - which includes roads, ports, airports, air and rail developments, telecommunications and postal developments - was allocated about 33 billion SRs (about 10 billion US \$) - 30% up on the previous year with 90% devoted to projects.

Allocations to economic resources (includes Agriculture and Water, Petroleum and Minerals, Industry and Electricity, Commerce Ministry, desalination authority and agricultural bank) was about 19.4 billion SRs (5.8 billion US \$) up by 20% over the previous year.

Manpower development was allocated 22.6 billion SRs (6.8 billion US \$) up by 23% on 1979/80 and is the third largest item in the 1980/81 budget. Less than 40% is to be spent on new projects such as the new Riyadh University (3.13 billion SRs or 940 million US dollars).

Health, social security, social affairs, information, youth welfare and other services get 12.3 billion SRs up by 25% (3.7 billion US \$).

Internal Credits from quasi-governmental agencies such as the Saudi Industrial Development Fund (SIDF) and the Real Estate Development Fund (REDF) increase by 51% over 1979/80 to 19.5 billion SRs (5.9 billion US \$). This reflects the government policy to encourage the private sector.

In 1980/81 the non-oil GDP is expected to show a real growth of 14 - 15% compared with 13.7% in 1979/80. A 15.5% growth target is planned for the third development plan 1980 - 85.

Table 17: STATE BUDGET ESTIMATES FOR 1980-81 (billion SRs)

	Total	of which Project Expenditure	Recurring Expenditure	% Increase of total over 1979/80
Revenue	261.3	-	-	63
Total Expenditure	245.0	-	-	27
Manpower	22.6	8.7	13.9	24
Transport and Communications	32.1	29.0	3.1	31
Economic Resources	19.4	15.8	3.6	31
(Agriculture and Water)	(11.1)	-	-	-
(Industry and Electricity)	(4.8)	-	-	-
Social and Health Development	12.3	6.3	6.1	25
(Health)	(5.7)	-	-	-
(Social Affairs and Youth)	(4.4)	-	-	-
				cont

Infrastructure	11.8	11.4	0.4	75
Municipal Services	19.7	16.6	3.1	55
Military and Security	68.9	-	-	18
Public Administration	15.8	-	-	20
Subsidies	5.1	-	-	-
Internal Lending Allocations	19.5	-	-	-

Source: Ministry of Finance, May 1980.

Table 18 gives government budgets for 1976/77 to 1979/80 in terms of Project Budget Expenditure while Table 19 gives figures for Total Budgeted Expenditures. Table 20 gives detailed allocations for organizations and institutions for the fiscal years 1978/79 to 1980/81.

Table 18: GOVERNMENT BUDGETS: PROJECT BUDGET EXPENDITURE (million SRs)

	1976/77	1977/78	1978/79	1979/80
Council of Ministers	4,757	4,925	4,399	13,964
Municipal and Rural Affairs	14,758	11,681	7,967	9,790
Public Works and Housing	9,061	7,857	5,649	3,023
Information	960	1,064	724	634
Civil Aviation	4,470	4,370	3,913	6,805
Interior	3,079	3,293	3,331	4,132
Labour and Social Affairs	2,041	2,237	1,452	2,127
Health	1,737	1,758	1,855	1,822
Education	6,368	7,955	5,123	5,772
Communications	15,381	7,823	7,377	9,811
Finance and National Economy	3,958	3,754	3,310	7,868
Industry Electricity and Commerce	1,081	488	337	3,451*

cont.

Agriculture and Water	1,721	1,511	1,854	3,112
Public Investment Fund	-	-	4,000	4,250
Other	25,396	39,003	50,433	49,379
Grand Total	94,795	97,719	101,724	125,940
Less Expected Shortfall	-20,361	-22,853	-18,676	-20,259
Total Project Expenditure	74,433	74,866	83,048	105,680

* Includes gathering and liquefaction of gas.

Source: SAMA Annual Report, 1979.

Table 19: TOTAL BUDGETED EXPENDITURE**
(million SRs)

	1976/77	1977/78	1978/79	1979/80
Council of Ministers	11,060	11,433	13,546	27,660
Municipal and Rural Affairs	16,078	13,384	10,267	12,225
Public Works and Housing	9,131	7,948	5,810	3,191
Defence and Aviation	31,906	31,602	35,203	47,060
Interior	5,854	7,985	9,030	9,839
Labour and Social Affairs	3,693	4,422	3,290	4,182
Health	2,973	3,384	4,041	4,177
Education	14,030	15,167	15,222	16,411
Communications	16,568	8,542	8,346	10,779
Agriculture and Water	2,336	2,188	2,940	4,169
Planning	97	88	104	82
Information	1,165	1,357	1,136	1,055
Foreign Affairs	352	373	450	542
				cont.

Finance and National Economy	4,373	4,162	3,862	8,436
Petroleum and Mineral Resources	429	587	623	1,000
Industry Electricity and Commerce	1,431	856	1,380	4,506*
Pilgrimage and Endowments	557	1,029	1,113	1,102
Justice and Religious Affairs	419	557	676	814
Subsidies	8,847	19,191	31,638	23,029
Less Expected Shortfall	-20,361	-22,854	-18,676	-20,259
Total Expenditure	110,935	111,400	130,000	160,000

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** Ordinary and Project Expenditure

* Includes Gathering and Liquefaction of Gas.

Source: SAMA Annual Report, 1979.

Table 20: DETAILED ALLOCATIONS TO SAUDI ORGANIZATIONS (million SRs)

	A 1978/79	B 1979/80	C 1980/81	Percentage change	
				A/B	B/C
Municipalities and Rural Settlements	8,494	7,052	10,435	(17)	48
Pensions Department	1,636	2,083	2,584	27	19
Riyadh University	1,894	2,136	3,128	13	46
King Abdel Aziz University	1,232	932	1,270	(24)	36
University of Petroleum and Minerals	613	800	930	31	16
King Faisal University	177	351	541	98	54
Imam Mohammad Ibn-Saud Islamic University	403	431	697	7	62
Islamic University	163	180	247	10	37
Public Administration Institute	89	109	134	22	23
Standards Organization	13	14	48	8	143
General Organization for Grain Silos and Flour Mills	317	410	761	29	86
Saline Water Conversion Corporation	3,990	3,591	6,928	(10)	93

cont

General Electricity Organization	1,019	1,379	3,021	35	119
General Ports Authority	6,121	5,975	4,618	(2)	(23)
Saudia Airlines	2,925	3,402	5,137	16	51
Saudi Railway Authority	304	423	708	39	67
General Petroleum and Mineral Organization (Petromin)	259	370	387	43	5
Saudi Red Crescent Society	53	59	81	11	37
Total	29,702	29,697	41,556	(0.01)	40

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Figures rounded to the near SRs 1 million.

Source: Saudi Gazette, 15 May 1980.

General Electricity Organization	1,019	1,379	3,021	35	119
General Ports Authority	6,121	5,975	4,618	(2)	(23)
Saudia Airlines	2,925	3,402	5,137	16	51
Saudi Railway Authority	304	423	708	39	67
General Petroleum and Mineral Organization (Petromin)	259	370	387	43	5
Saudi Red Crescent Society	53	59	81	11	37
Total	29,702	29,697	41,556	(0.01)	40

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Figures rounded to the near SRs 1 million.

Source: Saudi Gazette, 15 May 1980.

5. Saudi Government Policy tools:

The government has strong fiscal policy tools at its disposal. Because government expenditure represents a majority of domestic aggregate demand, the government has merely to curtail its demand for goods and services within the Kingdom in order to control inflation for example. However, if overdone the government can also cause a recession particularly as there are no counter-cyclical taxation devices in the Kingdom. It can also use wage and price controls such as the present food subsidies and the freezing of government salaries. It can also enter the market direct as state importer.

Monetary tools of economic control are relatively poor in Saudi Arabia. There are no interest - bearing government securities such as the British Treasury Stocks - interest is prohibited by Islamic law. There is no minimum lending rate or Central Bank rate and rediscount rates are prohibited. Thus open-market operations are impossible. The effectiveness of banking reserve requirements is reduced by the fact that although the ratio of demand deposits to currency in circulation is rising, it is still low.

Monetary regulations to control liquidity do exist including SAMA's restriction of a bank's loans to a percentage of its capital and reserves. However, these regulations do not extend to money changers and businessmen who provide a major portion of consumer and real estate financing (a situation perhaps similar to the position of finance houses

and building societies in the UK).

Saudi Arabia could attempt to lower the price of its imports by revaluing its currency. This measure would be effective provided the merchants would pass cost reductions on to the consumer - not necessarily something to be taken for granted - but government surveillance could stretch the overloaded bureaucracy. One objection to revaluation could be the consequent increase in costs for prospective export industries. Moreover, riyal revaluation could spark speculative inflows into the Saudi currency. This would contribute to an internationalization of the currency, which the Saudi Government discourages.

When the liquidity position of commercial banks came under pressure during 1979 due to the accelerated expansion in bank credit in the face of slackened growth of bank deposits; SAMA, in order to relieve the pressure reduced the statutory reserve requirement which had been in force at 15% against all deposit liabilities since May 1976 to 12% against demand deposits and 2% against time and savings deposits on 27 May, 1979.

6. The Saudi Balance of Payments

The balance of payments position for 1972 - 1978 is shown in Table 21. 1978 was noted as the year in which a current account deficit emerged inclusive of official transfers, the first since 1969. This was the result of a continuous rise in payments in the face of declining earnings.

Virtually all Saudi exports are comprised of crude oil, natural gas liquids (NL) and petroleum products. Exports at market prices fell by 11.6% in 1978 reflecting the drop in quantum of crude oil shipments in that year - that level was slightly below the level reached in 1976. Payments on the other hand increased by 26% as both imports and government expenditure continued on upward trend; the share of the former rising to almost 55% while that of the latter fell slightly to one quarter of total payments. Investment income payments actually declined in association with the lower value of exports and their share in total payments was reduced to 9.3 from almost 12% in the preceding year. On the whole there was a deficit of 3.3 billion SRs on current account during the year as against a surplus of 43.5 billion SRs in the previous year.

The turn around of 46.8 billion SRs in the current account between 1977 and 1978 was reflected primarily in the switch from rising to falling SAMA reserves of foreign exchange. There was also a considerable rise in private capital outflow, which was significantly offset by the fall in official capital outflow compared with substantial increases in

previous years.

The massive increase in oil prices and oil production in 1979 has pushed the current account well into the black for 1979 and should result in an even more dramatic surplus for 1980. Imports which are expected to increase will not be able to match the jump in oil export earnings. Thus although the current account balance in fiscal 1397/98 (1977/78) was -3.33 billion SRs (about -1.0 billion US \$), for fiscal 1398/99 (1978/79)* the equivalent estimated figure was about +47 billion SRs (+14 billion US \$). The latest forecast available at present for 1399/1400 (1979/80) was given as 111 billion SRs (30 billion US \$).

Table 21: BALANCE OF PAYMENTS ESTIMATES (million SRs)

	1973	1974	1975	1976	1977	1978
Current Account:						
A. Receipts						
1. Exports at market prices	22,542	118,545	97,761	127,824	144,284	127,476
2. Pilgrimage	956	1,832	1,968	2,427	2,911	3,516
3. Miscellaneous	1,124	4,790	7,466	11,552	16,301	16,911
Total A	24,622	125,267	107,195	141,803	163,496	147,903
B. Payments:						
1. Imports CIF	7,576	13,440	24,282	43,987	60,709	82,800
2. Investment Income	1,517	17,672	7,463	11,581	14,380	14,073
3. Government Expenditure, n.i.e.	2,991	7,468	18,988	26,556	31,831	37,596
4. Travel	1,050	1,317	2,238	3,568	4,992	7,580
5. Other Services	2,107	2,817	3,956	5,796	8,086	9,184
Total B	15,241	42,764	56,927	91,488	119,998	151,233
						cont.

C. Current Account:						
Surplus or Deficit						
(A - B)						
	+9,380	+82,443	+50,268	+50,315	+43,498	-3,330
D. Capital Account:						
1. Direct investment						
(-indicates inflow)						
	-226	-2,812	-4,431	-5,698	-3,755	-4,180
2. Other capital including						
errors and omissions						
(+indicates outflow)						
	+4,422	+41,452	*23,457	+40,518	+42,044	+11,866
3. Commercial banks net						
foreign assets						
(+indicates increase)						
	-51	+317	+467	+1,798	+2,425	+2,144
4. SAMA reserves						
(-indicates decrease)						
	+5,235	+43,486	+30,685	+13,706	+2,784	-13,160

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Source: SAMA Annual Report, 1979.

7. The Saudi Development Plans

A. The First Plan:

The Five Year Development Plan was introduced to Saudi Arabia in 1970 with the start of the First Plan 1970 - 1975. The Ministry of Planning is responsible for preparing the integrated plans for all the economic sectors. The Second Plan covers the period 1975 - 1980.

The First Plan's major objectives were economic stability, GDP growth, the development of human resources and the diversification of sources of National Income thus reducing the dependance on Oil.

It was shown earlier that the GDP growth target of 9.8% for the First Plan was exceeded and the resultant average growth was 13.5% per annum. This was helped by (then unexpected) the sharp rise in oil revenues from 5.2 billion SRs in 1969/70 to 95 billion SRs at the start of 1975. This again demonstrates the sensitivity of the economy to changes in the oil sector. Over the same period oil revenue's share in government annual budget estimates increased from 87% of total government revenue to 96% of total government revenue.

Table 22 shows how the realized First Plan growth rates in the various sectors compared with the growth targets set at the start of the plan (at 1969/70 prices). Similarly some figures are given for the Second Plan (at 1974/75 prices).

Table 22: FIRST PLAN AND SECOND PLAN GROWTH RATES

	First Plan Projection	First Plan Realized	Second Plan Projection	Second Plan* Realized
Total GDP	9.8%	13.5%	10.2%	9.2%
Oil Sector	9.1%	14.9%	9.7%	3.7%
Private Sector	12.0%	11.0%	13.4%	16.2%
Agriculture	4.6%	3.6%	4.0%	-
Manufacture	14.0%	11.6%	14.0%	-
Construction	10.4%	18.6%	15.0%	-
Transport and Communication	12.9%	17.0%	15.0%	-
Government Sector	7.0%	7.8%	12.9%	15.8%

* up to 1394/95 (1974/75)

Source: SAMA Annual Report, 1976, p 48 (in turn based on Central Department of Statistics (CDS) and Ministry of Finance (MF) figures).

Significant developments over the First Plan period include increased oil revenues and the acquisition of an increasing share of the ownership of the Kingdom's oil production industry. It also became evident that lack of financial resource should no longer be considered a constraint on Saudi development.

As shown in Table 22 progress under the First Plan has been mixed. Many targets were met and exceeded while others fell short of target, in particular, those for the hydrocarbon industry.

Some of the highlights of the First Plan were the increase of oil production levels to 8.5 million barrels a day in 1974 and the granting of licenses for the exploration and development of minerals in the Kingdom. The electricity system was improved with the establishment of the Electrical Services Department to plan and co-ordinate its development (Electricity companies in Saudi Arabia are private shareholding concerns). Total generating capacity was 1256 megawatts and the system served an estimated 2.2 million people. Cement production more than doubled.

The main feature of manpower development over the First Plan were a growth in the labour force of about 20% from 1328000 in 1970 to 1600000 in 1975. The growth rate for the Saudis was lower than for non-Saudis; 3.7% compared with 4.2%. However, Saudis still comprised 80% of the labour force in 1975*. It was estimated that total population in 1975 was nearly 7 million. GDP per capita increased from

* A government figure

about 900 dollars in 1970 to 6800 dollars in 1975, (latest GDP per capita figures for 1979/80 was forecast at US \$13,750)*.

The education system established a strong base. Almost 800000 students in 1975 were enrolled full-time in public schools and another 12000 were attending colleges and universities. There was a matching expansion in physical facilities.

Information services were also rapidly developed. Two radio complexes in Riyadh and Jeddah broadcast Arabic programmes for 20 hours daily. A SECAM French colour system T.V. station is now in operation. A news agency service was established in 1970 with international links.

The Health system has expanded in quantitative terms over the First Plan despite severe difficulties in manpower. Ministry of Health hospitals increased from 47 to 62, an addition of 569 beds, (a number of private hospitals also exist). Standardized designs for hospital construction was made policy. Social assistance was also expanded through the social security programme.

By 1975 there were 11000 kms of paved roads with a large expansion programme under way. There were more than 200000 vehicles and this number is rapidly increasing. By 1975 Jeddah port had ten new berths and two old berths

* US Embassy, Jeddah, April 1980

with seven more approved. Dammam port had seven new berths, two old and seven under construction. However national telecommunications system had not kept pace with the growth in demand for services over the First Plan. By 1975 there were 93600 lines of automatic telephone exchange equipment in ten cities; completion of 23 telephone office switch projects in the following three years would provide an additional 105200 lines (1975 - 1978). This sector had fallen behind schedule.

Housing construction during the First Plan had not kept pace with urban growth. About 75000 dwellings were constructed compared with an estimated need for new and replacement units of 154000. Lack of construction and mortgage financing and rising costs of labour, land, and materials have been largely responsible for the slow growth in the housing supply. The Real Estate Fund was established in the Saudi fiscal year 1394 (1974) for the purpose of making loans to industries and firms for housing construction and residential and commercial development.

Contrary to official fears in 1969 on financial constraints, revenues exceeded the ability to spend over the First Plan and the following budgetary surpluses were recorded:

<u>Fiscal Year</u>	<u>Budget surplus</u> (billion SRs)
1970/71	1.66
1971/72	3.33
1972/73	5.55
1973/74	23.26
1974/75	65.10

and in 1975/76 the surplus dropped to 23.7 billion SRs. In fact over the five years actual government revenue (including non-oil revenue) totalled 176.2 billion SRs (49.6 billion dollars). Actual government expenditure totalled 78.2 billion SRs (22 billion US dollars) leaving an accumulative surplus for the period of the First Plan of 98 billion SRs (28 billion US dollars). Effectively most of the excess was transferred to the states' Gold & Foreign exchange reserves.

In the construction industry employment rose from 140000 in 1390 (1970) to 250000 in 1395 (1975). Total cement consumption expanded from 1.2 million tons in 1390 (1970) to over 2.0 million tons in 1395 (1975). Domestic cement production increased from 600000 tons in 1390 (1970) to over 1.2 million tons in 1394 (1974), while steel-reinforcing bar production at Jeddah reached 22000 tons annually in late 1394 (1974).

Both public and private sector construction registered significant increases in the period 1970 - 1975 putting considerable stress on construction resources and doubling labour and

material costs between 1972 and 1974 as shown in the following building index:

	<u>Index Year</u>	<u>1392</u> (1972)	<u>1394</u> (1974)
Material costs*	1389	103	194
Labour costs**	1392	100	200

B. The Second Development Plan

The Development Plan, 1975 - 1980, states . . . "planning implies the efficient use of a country's resources in accordance with certain rationally-determined priorities for the attainment of nationally-cherished goals. Since goals are culturally, historically and politically oriented, a country's development plan essentially reflects its fundamental values and principles".

The fundamental values and principles which guide Saudi Arabia's balanced development are expressed in the following goals:

"Maintain the religious and moral values of Islam, assure the defense and internal security of the Kingdom, maintain a high rate of economic growth by developing economic

* composite index of 20 building materials & products

** Industrial Studies & Development Centre (I.S.D.C.)
1974

resources, maximizing earnings from oil over the long term and conserving depleting resources, reduce economic dependence on export of crude oil, develop human resources by education, training, and raising standards of health, increase the well-being of all groups within society and foster social stability under circumstances of rapid change, develop the physical infra-structure to support achievement of the above goals".

The development plan provides for further advance towards the social and economic goals listed above while it maintains the religious and moral values of Islam.

The government recognizes that to achieve the goal of a high rate of economic growth and to reduce the dependance on oil requires diversifying the economy. The Plan states this will be done by encouraging expansion in agriculture, industry and mining with particular emphasis on petro-chemical and mining industries. The expansion of the private sector will be encouraged by subsidies and various other incentives.

Table 23 compares the estimated financial requirements of the First and Second Development Plans and the relative shares of the sectors in the budget allocations.

The development Plan 1975 - 80 as shown in Table 23 outlines Saudi Arabia's challenge to propel itself into the league of more advanced developing countries. Its implementation calls upon some of the most sophisticated technology the

West can offer, the ingenuity and organizational skill of the international companies involved in the plan but mostly on the determination of the Saudi people and government. Given the country's rudimentary infra-structure in relative terms, and the narrow base of the economy outside the oil sector, the challenge which the government had set itself is an enormous one.

Table 23: ESTIMATED FINANCIAL REQUIREMENTS OF THE FIRST AND SECOND PLAN (billion SRs)

	First Plan 1970 - 1975		Second Plan 1975 - 1980		Ratio 2nd/1st
	Amount	%	Amount	%	
Economic Resources Development	6.03	10.7	92.13	18.5	15.3
Human Resources Development	10.20	18.1	80.12	16.1	7.9
Social Development	2.43	4.4	33.21	6.7	13.6
Physical Infrastructure Development	14.09	25.1	112.94	22.7	8.0
Sub-Total Development	32.76	58.3	318.42	63.9	9.7
Administration	10.47	18.6	38.18	7.7	3.7
Defence	12.99	23.1	78.16	15.7	6.0
External Assistance, Emergency Funds, Food Subsidies and G. Reserves	-	-	63.48	12.7	-
Sub-Total Other	23.46	41.7	179.81	36.1	7.7
Total Plan	56.22	100%	498.23	100%	8.9

Note: First Plan values have been adjusted to 1394/95 (1974/75) prices.

Exchange rate: US \$ 1.00 = SRs
US \$ 1.00 = SRs

Source: Industrial Studies & Development Centre, Riyadh: Investment Guide, 1977.

As seen in Table 23 the Second Plan proposed a staggering public expenditure of 498 billion SRs (142 billion US dollars) excluding a number of private sector investments (it is a government policy to encourage maximum participation by the private sector in the Plan) and those planned by oil companies in expanding oil production capacity.

The budget size of the Second Plan is about nine times that of the First Plan as Table 23 shows.

Table 24 breaks down the Second Plan allocations into recurrent and project cost elements.

Table 24: SECOND PLAN ESTIMATED RECURRENT AND PROJECT COSTS IN MILLION SRS

	Recurrent Cost	Project Cost	Total
Economic Resource Development	4,518.5	87,616.5	92,135
Human Resources Development	43,907.3	36,216.6	80,123.9
Social Development	18,148.8	15,084.0	33,212.8
Physical Infrastructure	12,530.8	100,413.8	112,944.6
Sub-Total Development	79,105.4	239,310.9	318,416.3
Administration	18,010.6	20,168.6	38,179.2
Defence	14,652.8	63,503.7	78,156.5
External Assistance, Emergency Funds, Food Subsidies and General Reserves	54,857.9	8,620.3	63,478.2
Sub-Total Other	87,521.3	92,292.6	179,813.9
Total	166,626.7	331,603.5	498,230.2

Exchange rate: see footnote Table 3.

Source: Industrial Studies & Development Centre, Riyadh : Investment Guide, 1977.

Certainly financial constraints through lack of revenue were not a problem in the Plan's implementation. Revenue levels in fiscal 1394/95 (1974/75) were about 100,000 million SRs. Additional revenues from foreign taxation were available.

The four development sectors: Economic resource development, Human resource development, Social development and Physical infrastructure development occupy 64% of total Plan public expenditure (318,000 million SRs). There is also a different financial emphasis in the Second Plan, e.g. Economic resources are 15 times larger than in the First Plan emphasising economic diversification.

A major indication of the task facing the planners is the volume of construction called for in the plan. In 1974/75 construction value amounted to 10 billion SRs. The Plan calls for a total construction value in all sectors of 300 billion SRs over the years 1975 - 1980. This level implies an average annual rate of increase of 60%.

Another major indication of the development challenge can be assessed from the projected 53% increase in the size of the labour force. About 800,000 workers were expected to enter the work market of which half a million would be foreign workers. (Actual number of foreign workers exceeded this figure).

US \$ 1.00 = SRs 3.35 (1975)

Total employment in the Second Plan was expected to increase at an annual rate of 8.9% reaching 2.33 millions by the year 1400, for the labour demands in the private and public sectors to be met. The manpower needs in the private sector would increase at about 7.9% per annum over 1975 - 1980 while in the public sector the increase must average 15.9% per annum to achieve the development requirements. 20% of the labour force in 1975 was estimated to be imported (a government figure - real figures are probably higher).

Thus the development of the labour force was a serious constraint to the rate of implementation of the Second Plan in Saudi Arabia. The import of foreign workers has traditionally served to fill the gap and as indicated elsewhere about half a million workers were expected to be recruited before the end of the Second Plan.

As expected, the government is emphasizing the need to train, recruit, and promote Saudis to reduce their dependance on foreign labour, and meet development goals. Participants at the Institute of Public Administration were expected to double while vocational training was to expand seven-fold.

Elementary school enrollment was expected to increase by 50%, post-elementary enrolment by 100% and even larger increases in higher education, evening classes and adult literacy classes.

About 30 billion SRs was to be invested in school construction alone. 74 million SRs for libraries, museums and cultural institutes and 1.9 billion SRs for investment in improving and expanding information services.

Table 25 below gives estimates for non-Saudi manpower at the end of 1395 (1975) and projected figures expected by end end of 1400 (1980) by occupational groups.

Table 26 gives similar information for Saudi manpower.

Table 25: 1395 (1975) ESTIMATES FOR NON-SAUDI MANPOWER
AND PROJECTED FITURES FOR 1400 (1980) BY
OCCUPATIONAL GROUPS (THOUSANDS)

Occupational Group	<u>1395</u> <u>1975</u>	<u>1400</u> <u>1980</u>	Increase by
Manager	6.3	12.4	6.1
Professionals	15.7	23.5	7.8
Technicians and Sub-Prof.	31.4	81.3	49.9
Clerical Workers	31.4	121.8	90.4
Sales Workers	47.1	112.6	65.5
Service Workers	47.1	145.2	98.1
Operatives	25.1	51.4	26.3
Skilled Workers	47.1	101.9	54.8
Semi-Skilled Workers	62.8	162.5	99.7
Total	314.0	812.0	498.0

Table 26 gives similar information to that in Table 25 for Saudi workers.

Source: Industrial Studies & Development Centre,
Riyadh : Investment Guide, 1977.

Table 26: 1395 ESTIMATES FOR SAUDI MANPOWER AND PROJECTED
FIGURES FOR 1400 BY OCCUPATIONAL GROUPS
(Thousands)

Occupational Group	<u>1395</u> <u>1975</u>	<u>1400</u> <u>1980</u>	Increase by
Managers, Officials	7.4	8.7	1.3
Professionals	48.4	52.9	4.5
Technician and Sub-Prof.	25.0	33.4	8.4
Clerical Workers	67.5	99.6	32.1
Sales Workers	82.3	97.2	14.9
Service Workers	105.2	134.5	29.3
Operatives	40.0	57.1	17.1
Skilled Workers	70.1	93.5	23.4
Semi-Skilled Workers	170.0	265.0	95.0
Unskilled Workers	244.0	296.4	52.4
Farmers	311.2	281.0	(30.2)
Bedouins	114.9	98.7	(16.2)
Total	1,286.0	1,518.0	232.0

Source: Industrial Studies & Development Centre,
Riyadh : Investment Guide, 1977.

The estimated capital investments in planned major construction programme for 1975 - 1980 are shown in Table 27.

Table 27: ESTIMATED PLANNED CAPITAL INVESTMENT IN MAJOR
CONSTRUCTION PROGRAMMES 1975 - 1980
(at 1974/75 prices)

Programme	Value in billion SRs (at 1974/75 prices)
Schools	33
Housing	29
Hospitals	12
Military Bases	9
Other Government	5
Commercial	4
Municipalities	46
Highways	10
Airports	8
Ports	6
Electricity Generation	6
Desalination Plants	20
Industrial Plants	70
Total	258 billion SRs.

Source: Industrial Studies & Development Centre,
Riyadh : Investment Guide, 1977.

It is interesting to contrast the size of planned infrastructure construction expenditure with that for industrial plants; 188 billion SRs compared with 70 billion SRs for industrial plants (Table 27). Thus out of a total Second Plan budget of 498 billion SRs, 258 billion SRs was earmarked for infrastructure construction programmes.

Housing has been a major problem in Saudi Arabia in the mid-1970's with demand far outstripping supply. The effect of inflation in land prices, in some cases of the order of 1000% was reflected in the very high rents being asked for. Even in 1977 villa rents were in the range of 100,000 SRs to 150,000 SRs per annum. The property boom peaked in 1976 but rents remain sluggish due to the time lag involved in bringing new properties on the market.

Five recent 1977 Central Planning Organization studies (CPO) indicated a need for urban housing for the Second Plan in the order of 329,000 units distributed as follows:

Central region	54,00 units (Riyadh alone)
Eastern region	125,000 units in coastal zone cities resulting government induced growth
Northern region	5,200 units
Western region	129,000 units
South-west region	9,000 units.

Total Kingdom need was about 338,000 units of which

181,000 units are New units, 40,000 normal replacement and 117,000 sub-standards existing which need replacement.

To encourage home-ownership, the government through the Real Estate Fund will grant 70% 25-year interest-free financing to any Saudi who intends to build his own house provided the Saudi owns the land initially, which is held in collateral against the loan. 50% five-year interest free financing is available to property developers for commercial housing. 20% of the home ownership loan is considered a grant from the state.

Demand for water in 1975 was 1900 million cubic metre per year (mcmpy) for agriculture, 390 mcmpy for oil-well injection and 170 mcmpy for towns. By 1980 this is expected to rise to 7,060 mcmpy for agriculture, 2,400 mcmpy for oil-well injection, 545 mcmpy for urban use and 95 mcmpy for industrial use.

Three Saudi institutions are involved in water development. The Ministry of Agriculture and Water has been allocated SRs 6.8 billion to finance its water supply systems, the municipalities Department in the Ministry of Interior which will invest 1.8 billion SRs in water supply systems for nine urban centres excluding Riyadh and Jeddah and the Water Desalination Organization. The largest projects will be handled by the Water Desalination Organization with its ambitious projects for dual-purpose plants producing electricity as well as water. Investment allocation here totals 24.8 billion SRs for the Second Plan.

Desalination will be the main source developed for the east and west coast urban centres and industrial complexes with a projected increase of 209,000 cubic metres per day on the Red Sea and 380,000 cubic metres per on the Arabian Gulf Coast, although not all planned capacity would be in use by 1980.

To cope with the expected sharp increase in demand for electricity, Saudi Arabia was planning to add 3,300 megawatts of generating capacity and 3,500 kilometres of transmission lines to serve an additional 1.6 million people. Most of the generating capacity would come from the desalination plans described above. In addition, Saudi Arabia plans to integrate and standardize its present heterogenous voltages and frequencies to 127/220 volts and 60 Hertz.

Total investments in the electric power generating system, after adjustments for water desalination power, are 3.5 billion SRs for Second Plan. By 1980 the system is expected to serve 3.8 million people and generate 4,538 megawatts while demand is expected to reach 3,364 megawatts.

Given the importance of oil in the Saudi economy the government established the Supreme Advisory Council for Petroleum and Minerals and proceeded to acquire ARAMCO the main oil concessionaires. Programmes and projects worth a total of 680 million SRs under the Second Plan include economic and technical studies, seismic exploration, exploratory drilling and utilities, field and resources

study.

Intensive geologic reconnaissance mapping of the pre-cambrian Arabic shield was completed in the First Plan. Saudi Arabia is also seeking to identify mineral resources in economic concentration. So far deposits of iron, gold, silver, copper, zinc, and phosphates have been identified, but mineral commercialization so far is limited to non-metallics such as cement, gypsum, marble, lime and salt.

Since diversification of National Income is desired, manufacturing has been given special emphasis in the Second Plan. Steps were taken to foster the right climate for industrial development. These include tax exemptions, incentives and promoting the role of the private sector (see Chapter IV).

By far the largest industrial projects are the Hydrocarbon ones shown in Table 28 and involving investments of 50.7 billion SRs. 1,600 million cubic feet per day of gas would be made available for industrial use in the Eastern region. Four Petrochemical complexes are to be constructed, three in the Eastern region and one in the Western region. The first one in the East was to be operative by 1399/1400 (1979/80)*. Also planned was the construction and operation by 1400 (1980) of two new fertilizer plants in the Eastern region with a combined annual capacity

* delayed

of 220,000 tons of Ammonia and 800,000 tons of Urea. The production of 3.5 million tons of steel is planned at Jubail on the Gulf. The steel will be in the form of metal pellets, basic shapes and bar, plant and pipes. In addition for start-up in 1396 (1976) was an aluminium plant for the Eastern region. (The aluminium plant was abandoned as part of Saudi Arabia's contribution to industrial Gulf regional industrial coordination - Bahrain already has an Aluminium Plant).

Other manufacturing industries identified by the Industrial Studies and Development Centre ISDC, as warranting immediate attention include: grain silos, flour and feed milling complexes, the expansion of cement plant capacity from 1.4 million tons per year to 10.4 million tons per year and hundreds of manufacturing projects for construction materials, agriculture and food processing and household and commercial products.

Table 28: MAJOR DEVELOPMENT PROGRAMMES PLANNED FOR THE HYDROCARBON-BASED INDUSTRIES
1975 - 1980 PLAN

Programmes and Projects	Investment (million SRs)	Capacity	Peak Employment
Eastern Region			
Gas Gathering and Treatment	16,000	1,600 million Cu.ft. per day	2,300
4 Petro/Chem complexes 3 to be initiated	9,000	2.0 million tons per day	6,800
2 Export Refineries	4,600	500,000 b/d	1,700
Lube Oil Refinery	2,040	107,000 b/d	550
4 Fertilizer Plans 2 to be initiated	1,400	2 million tons per year	2,000
Aluminium Plant	1,300	210,000 tons per year	1,900
Steel Plant	5,500	3.5 million tons per year	8,600
Sub-Total	39,840		23,850

cont.

Western Region			
Crude line to the West	5,300	2.4 million b/d	550
Natural Gas Liquids Line to West	1,200	256,000 b/d	
Export Refinery	2,100	250,000 b/d	850
Petro/Chem Complex	2,250	500,000 tons per year of ethylene equivalent	1,700
Sub-Total	10,850		3,100
Total	50,690		26,950

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Exchange rate: See footnote Table 3.

Source: Industrial Studies & Development Centre,
Riyadh : Investment Guide, 1977.

As indicated earlier, the Ministry of Health has had some success in implementing First Plan targets but was faced with serious manpower shortage and organizational problems. More effort is now being put into this vital sector. The Second Plan provides for 12.4 billion SRs for the construction and equipment of 11,500 hospital beds, 212 dispensaries, 185 specialized health facilities, 30 health-training institutes and a network of support services. In addition 58 million SRs have been allocated to strengthen the Saudi Red Crescent Society.

There is a comprehensive Social Security programme giving assistance to the needy with 49 offices located throughout the Kingdom. New schemes such as child allowance were scheduled for introduction in 1977. Payments of around 10.7 billion SRs were expected over the Second Plan period and 34 new offices planned. In addition the government has planned new welfare institutions, probation homes and co-operatives. Social insurance is also to be greatly expanded and so are youth welfare programmes. Finally the judicial system was to be strengthened.

Road traffic over the Second Plan was expected to grow by more than 15% annually. As indicated the number of motor vehicles was expected to increase from 200,000 to more than 500,000 by 1980. Construction programmes planned include 13,000 km of main, secondary and paved feeder roads and 10,250 km of earth surface rural roads. Investments of more than 10 billion SRs and average maintenance of SRs 38,000 per km are provided for in the

plan. However, no investments in railroads are scheduled pending conclusion of existing studies (including a study for reviving the historic Hijaz Railway line from Jeddah to Damascus). By the end of the Second Plan over 13.00 million tons of general cargo would be imported annually versus about 2.4 million tons in 1973/74. Total port project finance for the Second Plan was 6.8 billion SRs. Allocations for airports totals 2.5 billion SRs.

In communications, the targets set by the First Plan proved to be inadequate to meet requirements. By the end of the Second Plan the Saudi government aimed at installing an additional 660,000 telephone lines of which 490,000 should be in service. Over 3.2 billion SRs are earmarked for investments in communications over the five years covered by the plan. In addition about 332 million SRs have been allocated for purchasing 38 mobile post offices, building 20 main exchange offices and 90 small offices.

In addition a major portion of the Plan funds (1975-80 or 1395-1400) were allocated to make the cities, towns and villages of Saudi Arabia better places in which to live, work and travel. Over 46.1 billion SRs are to be spent on a wide range of improvements including a public transportation system, better sanitation and public health services and improved road, sewage, water and electricity networks.

The budget for the Second Plan was estimated at about 500

billion SRs but was later revised to 623 billion SRs in light of the sudden increase in oil income. Unlike the First Plan the Second Plan witnessed an increase in the country's absorptive capacity and actual expenditure exceeded 650 billion SRs. GDP growth over the last two years (1977/78, 1978/79) of the Second Plan had fallen below the Second Plan projections to 5.9% and 7.6% respectively (target average was 10.2%), reflecting the pre-dominant weight of the oil sector's negative growth or slow movement in these years. This is attributed almost exclusively to exogenous developments in the world oil markets. The growth of the non-oil sector provides a better measure of the economy's performance; relative to plan projections its rate of growth has remained higher, albeit it has deaccelerated from an 18 - 19% range in the first two years of the plan period to around 14% in the fourth year.

While components of the non-oil private sector are not as yet known for 1398/99 (1978/79), there is ancillary evidence suggesting that this sector's performance is composed of rather above Plan average growth in agriculture, transport, communication and storage offset by somewhat below average growth in manufacturing and construction. The government sector has held even closer to projections.

The economy was clearly out of the furious pace of the earlier 'boom' years and set on a more tempered course which was more sustainable over the remaining years of the Second Plan and into the Third Plan period without danger

of reinforcing from domestic sources the inflationary pressures to which the economy is exposed from abroad.

The Third Plan in its final and revised form was not announced at the time of writing but the author suggests it's size could well reach 1000 billion SRs with infrastructure still taking up a large share. An Appendix on the Third Development Plan may be added if announced before going to print.

8. Recent Developments in the Saudi Economy

The quadrupling of oil prices in 1974 was the starting point for a much too rapid expansion in the Saudi economy. The unexpected vast increase in oil income in fact led to the re-appraisal of the Second Development Plan budget appropriations which was increased from the original 495 billion SRs over 1975 - 1980 to 623 billion SRs. Actual Plan expenditure in fact was thought to have exceeded the 623 billion SRs budget, an indication of the country's increased absorptive capacity.

The rapid expansion of the economy at the start of the Second Plan was reflected in government expenditure both domestic and foreign exchange expenditure which increased by 121% in 1395/96 (1975/76) following growth rates of 88% and 83% in the previous two years. The high rate of growth in government riyal spending not only generated government demand for the available supplies of goods and services but also contributed to a steep rise in private sector liquidity or M3. This in turn inflated private sector demand for development-oriented as well as consumer goods and services. Total imports growth CIF at current prices increased by 86% in 1395/96 (1975/76) slowing down to 42% in 1396/97 (1976/77) and 47% in 1397/98 (1977/78) to 74.42 billion SRs.

The rapid expansion led to an overheating of the economy and high inflation since despite the high growth rate of non-oil GDP (17% in 1394/95 or 1974/75 and 19.8% in

1395/96 - 1975/76) and the rising level of imports; supplies were unable to keep pace with the surging demand from both the government and the private sector due to certain unavoidable constraints and bottlenecks within the economy.

Faced by a widening inflationary gap, the government laid stress on the removal of major bottlenecks in the implementation of the Second Plan; ports congestion being one such bottlenecks, to enable the rapid increase of supplies from both foreign and domestic sources. Since government spending generates the greater part of the economic activity, the government also decided to regulate its outlays so as to slow down the rate of monetary expansion. Another important measure was the easing of restrictions on the importation of foreign workers. Relief measures were also provided for consumers to reduce the effects of inflation such as food subsidies, rent controls and removal or reduction of customs duties.

The strong measures and policies adopted by the government to deal with the overheating economy were reflected in the 1396/97 (1976/77) budget which stressed the removal of major constraints on supplies with the main emphasis being on housing, port and transport facilities, public utilities and other essential infrastructure.

The government attack on inflation and overheating dealt with all fronts of the problem and resulted in success in restoring the economy to a more normal pace of development.

Port congestion was one of the most serious supply bottlenecks in Saudi Arabia. By the optimum use of the existing facilities through recruitment of additional labour, provision of facilities for the roll-on-roll-off systems of unloading and the use of helicopters, the port authority had managed to remove this serious constraint on development.

The country's total CIF imports had grown by 86% in the boom year 1395/96 (1975/76) slowing down to 42% in 1396/97 (1976/77) and by 47% in 1397/98 (1977/78) to reach 74.42 billion SRs. On the other hand private sector imports increased by 51% in 1397/98 (1977/78) to 56.6 billion SRs following growth rates of 51% in 1396/97 (1976/77) and 92% in 1395/96 (1975/76). The high growth rate of private sector coupled with the deliberate reduced government demand for available resources had released a greater volume of goods for the private sector thus exercising a salutary effect on the general price level. The elimination of port congestion and the expansion of distributional infrastructure has generated a greater flow of imports and a smoother and faster distribution system throughout the country.

Action was taken over the housing shortages and the situation is now more or less back to normal. Action was taken over the increase in the money supply with

successful results. Another major bottleneck is the manpower shortage which although made less acute by government action remains an area in need of long-term solutions.

The results of the combined government action on all fronts was to bring down the inflation rate by the end of 1977 to 31% and to an astonishing 4% by the end of 1978. This inflation figure^{*} is not confirmed it can nonetheless be stated that there has been a very significant drop in inflation from 1978 onwards.

Thus in addition to the continued high rate of real growth, a major achievement of the Saudi economy has been the decline in inflationary pressures. This has been the result of government policies designed to pursue a non-inflationary path of growth.

Gross private sector liquidity which is contributed by the combination of government cash flows in the domestic economy and net increases in commercial bank claims on the private sector increased by 10.6% to 109.4 billion SRs in 1398/99 (1978/79) as against a growth of 62.9% in the previous year and even higher rates for the years preceding that (see Table 29).

This expansion was offset by private sector balance of payments deficit to the extent of 101.6 billion SRs leaving a balance of 7.8 billion SRs for increase in money supply M3. Thus M3 which had increased by 16.3 billion SRs

* SAMA figure.

or 43.6% in 1397/98 (1977/78) increased by 14.5% in 1398/99 (1978/79) only about one third the growth rate in the previous year (Table 29).

In contrast with money supply, real supplies of goods and services increased at the rate of 15.7% in 1398/99 (1978/79) thus contributing to a decline in the inflationary gap (Table 31) as reflected in both the non-oil GDP deflator and the cost of living index (CLI) for urban households. The former registered a rise of 9.2% in 1398/99 (1978/79) compared with 40.4% in 1395/96 (1975/76), 22.4% in 1396/97 (1976/77) and 14.5% in 1397/98 (1977/78). The latter (CLI) which had soared by 34.6% in 1394/95 (1974/75) grew at a substantially lower rate in the following two years and in fact declined in 1397/98 (1977/78) and 1398/99 (1978/79) because of a fall in rents and the prices of a number of commodities. The only major sector where prices have not shown a decline is the services sector but even here prices have either stabilized or the growth rate has decelerated. It may be noted that the CLI shows a lower rate of inflation than that indicated by the inflationary gap because of subsidies on essential consumer goods and price controls particularly on rent.

Thus in addition to the decline in the inflationary gap the factors which have made a positive contribution on the inflation front are: removal of bottlenecks and free flow of goods due to improved infrastructure facilities, the greater competition in the market including the easing of restrictions on entry of foreign workers and the cuts in

government spending. However the factor which has acted counter to the governments effort in bringing down prices was the rise of 12.9% in the IMF US dollar import index which in spite of an appreciation of 3.8% in the exchange rate of the riyal against the dollar contributed to a rise of 8.7% in riyal import prices. Since imports constituted 51% of real supplies in 1398/99 (1978/79) the continuation of subsidies on a number of essential imports, the appreciation of the riyal against the dollar and the squeezing of profit margins due to the easing of excess demand pressures and increase in trade competition have proved to be redeeming factors in offsetting the impact of imported inflation.

Having succeeded in combating inflationary pressures, the government raised its expenditure budget to 160 billion SRs for the fiscal year 1399/1400 (1979/80) against budgeted expenditure of 130 billion SRs and actual expenditure of 147 billion SRs in the previous year. Actual government expenditure in 1979/80 topped 200 billion SRs. The stress of government expenditure programmes has however shifted to the expansion of the country's industrial and agricultural base in comparison with the building of infrastructure which has expanded considerably even though it still needs attention and will continue to claim a large share of total project outlays.

Commercial bank credit to the private sector rose by 8.5 billion SRs against 2.8 billion SRs in the previous year thus offsetting partly the contractionary effect of slower

growth in government spending and rising private sector balance of payments deficit on money supply and enabling the private sector to finance its productive needs. Since this tended to strain the liquidity positions of banks, SAMA reduced the statutory reserve requirements from 15% against all deposit liabilities to 12% against demand deposits and 20% against time and savings deposits as from 27th May, 1979.

Table 29: FACTORS AFFECTING CHANGES IN M3

	<u>1394/95</u> <u>1974/75</u>	<u>1395/96</u> <u>1975/76</u>	<u>1396/97</u> <u>1976/77</u>	<u>1397/98</u> <u>1977/78</u>	<u>1398/99</u> <u>1978/79</u>
A. Increase in private sector liquidity	20.1	46.2	60.7	98.9	109.4
1. Cash flows through Government spending of which	17.9	43.1	60.8	96.1	101.0
loans disbursed by Government sponsored specialized credit institutions	(0.8)	(5.8)	(15.7)	(19.6)	(17.3)
2. Commercial bank claims on private sector	2.2	3.1	-0.1	2.8	8.5
B. Net private sector balance of payments deficit	-14.8	-35.8	-47.8	-82.6	-101.6
C. Increase in net private sector liquidity, M3	5.3	10.4	12.9	16.3	7.6
1. Money	4.1	8.9	11.7	14.1	5.2
2. Quasi-money	1.2	1.5	1.2	2.2	2.6

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Source: SAMA Annual Report, 1979.

Table 30: SUPPLIES AT CURRENT AND CONSTANT PRICES (billion SRs)

	<u>1394/95</u> <u>1974/75</u>	<u>1395/96</u> <u>1975/76</u>	<u>1396/97</u> <u>1976/77</u>	<u>1397/98</u> <u>1977/78</u>	<u>1398/99</u> <u>1978/79</u>
1. Total supplies at current prices	41.7	70.8	105.8	144.8	181.9
a. Non-oil GDP	28.1	47.3	67.7	88.2	109.6
b. Imports of non-oil private sector	13.6	23.5	38.1	56.6	72.3
2. Total supplies at constant prices	41.7	56.1	73.1	90.6	104.8
a. Non-oil GDP (at 1394/95 prices)	28.1	33.7	39.3	44.8	50.9
b. Imports of non-oil private sector (1b) deflated by (3b)	13.6	22.4	33.8	45.8	53.9
3. Deflators					
a. Non-oil GDP deflator	100.0	140.4	171.9	196.9	215.1
b. Riyal import price deflator (IMF US Dollar import price index adjusted for appreciation of the Riyal against the Dollars)	100.0	105.1	112.8	123.5	134.2

Source: SAMA Annual Report, 1979.

Table 31: MONEY SUPPLY AND REAL MONEY DEMAND (Annual Rates of Growth)

	Money Supply (M3)	Real Supplies of Goods and Services	The Inflationary Gap (1) - (2)	Non-Oil GDP Deflator	IMF US Dollar Import Price Index	Import Price Index	Cost of Living Index
1395/96 1975/76	73.6	34.5	39.4	40.4	5.0	5.1	31.6
1396/97 1976/77	52.7	30.3	22.4	22.4	8.6	7.3	11.4
1397/98 1977/78	43.6	23.9	19.7	14.5	9.6	9.5	-1.6
1398/99 1978/79	14.5	15.7	-1.2	9.2	12.8	9.7	-2.0

a. Real money demand is assumed to be represented by the real supply of goods and services as given in Table and Column 2.

b. Import price index is the IMF US Dollar import price index adjusted for appreciation of the Riyal against the Dollar.

c. Estimate.

Source: SAMA Annual Report, 1979

Table 32: DOMESTIC LIQUIDITY (million SRs)

Fiscal Year Rajab-Jumad II (At Year End)	Currency in Circulation	Demand Deposits	Time and Savings Deposits	Other Quasi Monetary Deposits	M1 (1 + 2)	M2 (5 + 3)	M3 (6 + 4)
1394/95 1974/75	5,051.6	5,632.5	1,539.1	1,836.6	10,684.1	12,223.2	14,059.8
1395/96 1975/76	8,558.5	11,011.8	1,571.9	3,310.4	19,570.3	21,142.2	24,452.6
1396/97 1976/97	13,607.7	17,609.6	1,810.6	4,307.6	31,217.3	33,027.9	37,335.5
1397/98 1977/78	17,969.6	27,327.4	3,060.2	5,259.9	45,297.0	48,357.2	53,617.1
1398/99 1978/79	21,009.6	29,476.3	4,165.2	6,728.8	50,485.9	54,651.1	61,379.9
	Percentage Growth in Domestic Liquidity %						
1394/95 1974/75	49.7	76.3	68.5	47.2	62.6	63.3	61.0
1395/96 1975/76	69.4	95.5	2.1	80.2	83.2	73.0	73.9
1396/97 1976/77	59.0	59.9	15.2	30.1	59.5	56.2	52.7
1397/98 1977/78	32.0	55.2	69.0	22.1	45.1	46.4	43.6
1398/99 1978/79	16.9	7.9	36.1	27.9	11.5	13.0	14.5

Recent developments in the oil sector were reflected mainly in a significant increase in oil income in 1979 after several years of relative stability. This was the result of about 100% increase in the price of Saudi oil from \$13.34 to \$26 (later to \$28 and may even reach \$32 in 1980) plus an increase in oil production by 1 million b/d to 9.5 million barrels per day to satisfy international oil demand.

Despite the impressive growth of the non-oil sector; the oil sector still accounts for about two-thirds of real GDP, the major share of government revenue and virtually all exports.

It can be seen therefore that many of the major macro-economic measures of the performance of the Saudi economy are heavily dependant on external events which influence the price and demand for Saudi oil. Thus the doubling in the price of Saudi oil and the extra 1 million barrels per day in 1979 resulted in very high growth rates for GDP, exports, and government revenue as well as a significant surplus in external accounts and an increase in Saudi holdings of investments abroad. High oil prices and oil production in 1980 will once again cause high growth rates for the macro indicators.

Physical developments in the oil sector include a number of large projects, as the government moves to increase the domestic value-added to its crude oil production. Phase one of the master gas gathering system began to go on

stream in early 1980. This project which is due for completion in 1983 will bring the amount of Natural Gas Liquids (NGL) available for marketing by the state oil marketing company Petromin to 8.8 million tons per year. The project will make Saudi Arabia the world's largest exporter of propane and butane and will eliminate most of the wasteful flaring of natural gas. It will also generate large quantities of feed-stocks for the petrochemical industries soon to be established in the Kingdom and provide sweet dry gas as fuel for the modern industrial city of Jubail and other industries in the Eastern Province. By 1982 the oil and natural gas liquids (NGL) pipelines from the Eastern Province to the new industrial city of Yanbu in the Red Sea west coast are due to be completed. This will make NGL from the master gas gathering system as well as crude oil, available for export and as input for the petrochemical and refining industry being established at Yanbu.

Petromin at the time of writing was responsible for marketing 1.4 million barrels per day out of the total Saudi production of 9.5 million b/d. The Petromin oil is sold direct to foreign state-owned oil companies on a direct government to government basis. Petromin also markets the NGL. Three organizations are involved in the effort to industrialize via Petrochemicals and other oil related industries - petrochemicals being at the heart of the Saudi effort to industrialize and modernize the economy. The Royal Commission of Jubail and Yanbu (the two new petrochemical industrial cities on the Gulf and the

Red Sea respectively) is charged with setting up the infrastructure for the industries to be established by the other two organizations. Petromin the state oil and marketing corporation will be charged with the establishment of oil refineries and lube oil plants while SABIC - the Saudi Arabian Basic Industries Corporation is the Saudi Government entity responsible for the petrochemical industry.

One of the Second Plan goals was for the Royal Commission to set up the infrastructure. The Third Plan was to see the actual establishment of the industries.

For Jubail, joint venture agreements have been signed with a Japanese consortium for a methanol plant, with Korf steel for a Steel Mill and with Exxon for a low-density polyethylene petrochemical complex. Agreements were expected soon with Pecten (US Shell) for an ethylene based petrochemical complex and with Dow Chemical for a second Ethylene-based complex. A feasibility study agreement was signed with a consortium headed by Mitsubishi for a 450,000 tons per year ethylene unit at Jubail.

For Yanbu, Mobil signed a final agreement for a 450,000 tons/year ethylene complex for start-up in late 1984 or early 1985. After difficult negotiations between SABIC and the foreign joint-venture potential partners, the situation now seems to be progressing and the Saudi petro-chem industry is on its way.

The progress of infrastructure developments is impressive. Asphalted roads and rural roads had reached 20,134 kilometres and 20,119 km by 1979. Completion of the 753 kilometre Taif-Abha-Jizan Highway has linked the fertile areas of the Kingdom in the south to the distant consumption areas further north.

A total of 114 piers are expected in operation soon at the Kingdom's ports (Jiddah, Dammam, Yanbu, Jizan and Jubail) with a total capacity of 40.7 million tons.

New airports will soon be completed for Jeddah, Riyadh and other centres.

Over 500,000 telephone lines are already in operation.

Eleven ground satellite stations for inter-city telecommunications have been completed.

Telex services are now available in 19 cities. 9000 lines are now in operation.

Postal services have improved with post offices now available in the large neighbourhoods.

Enrollment in all educational institutions by 1979 was 1.35 million - an 11% increase over the previous year and 10,000 women are benefiting from Higher Education.

To ensure regular and adequate availability of basic food

stuffs, warehouses and grain silos are being built in different parts of the Kingdom.

Electricity generation reached 9,435 million k.wh. in 1978.

As indicated earlier, the full Third Five-Year Development Plan is not yet available at the time of writing. Indications are that government expenditure will remain the engine for substantial economic growth. Although the size of infrastructure expenditure is expected to remain large; the infrastructure already in place will now mostly eliminate the physical limits on the economy's absorptive capacity.

However, although government spending is expected to surge in the third plan; the lessons of the runaway inflation of the mid-1970's have been noted and expenditure development is likely to be closely monitored.

Policy makers have perceived the potential social and political drawbacks of too rapid modernization. Overall growth targets are therefore likely to maintain a balance between desired economic development and the maintenance of the valued religious, cultural and social traditions of the Kingdom.

Planning officials have already indicated their concern with development of social rather than physical infrastructure concentrating on manpower training. They are aiming for the reduction in the dependance on foreign workers.

It is the author's view that this will not be easy to achieve in the short-term.

Development of the "productive sectors" of industry and agriculture also rank high in the Third Plan (this sector contributes less than 10% of non-oil real GDP).

There is talk of greater decentralization and concrete efforts to bring development to distant regions of the Kingdom. After the massive build-up of facilities in the Second Plan there will also be a need for increased effort to maintain and operate these projects.

CHAPTER IV

THE BUSINESS ENVIRONMENT

1. Introduction

It was shown in the last Chapter that the oil sector dominates the Saudi economy. The non-oil private sector which the author here equates with the business environment, was nonetheless very healthy contributing about 34% of real GDP in fiscal 1977/78 and averaging a growth of 16.2% over the first four years of the Second Plan (1975-80). Table 9 (from Chapter III) gives the GDP contribution in real terms for the various non-oil private sub-sectors, for the first three years of the Second Plan. It may be noted that the manufacturing sector (excluding petroleum refining) contributed only 2.6% of real GDP in 1977/78. The growth rates of the various sub-sectors is reproduced in Table 1.

The industrial base of the Kingdom is being expanded (see Appendices 1, 2, 3 and 4) and the latest available figures indicate that by the end of 1978 a total of 1,035 industrial establishments had been licensed involving an authorised capital of 16.78 billion SRs - 11.332 billion SRs under Protection and Encouragement of National Industries Act and 5.448 billion SRs under Foreign Capital Investment Law.

Table 1: ANNUAL RATES OF REAL GROWTH DURING THE SECOND DEVELOPMENT PLAN 1975-80

	Average Annual Plan Projection	Actual Growth			
		1st Year 1975/76	2nd Year 1976/77	3rd Year* 1977/78	4th Year* 1978/79
GDP	10.2	8.6	14.8	5.9	7.6
Oil Sector	9.7	1.1	13.2	-0.5	1.8
Non-Oil Private Sector	13.4	17.8	18.9	13.9	14.1
Agriculture	4.0	4.0	5.0	6.0	-
Manufacturing	14.0	8.2	13.6	8.7	-
Construction	15.0	34.5	25.3	10.5	-
Transport, Communications and Storage	15.0	22.6	22.1	22.7	-
Government Sector	12.9	23.9	12.9	13.5	12.9

* Preliminary

Source: SAMA Annual Report 1979.

It is worth noting that there are many small unlicensed industrial establishments; a figure of 10,000 units would be a good estimate, employing less than 10 workers and concentrated in such areas as bakery, tailoring and metal work. In 1972 the figures for the small unlicensed units was 9000 and their combined contribution is probably less than 1/3 of the total gross value added of the entire non-oil manufacturing activities.

Construction, much of it government-initiated, predominates among private sector activities and accounts for over a third of total non-oil output. Trading, transport and real Estate together take up another third while the "productive" sectors of industry and agriculture, the main targets of the Third Plan, currently generate less than 10% of non-oil GDP.

The Saudi Government which adheres to the concept of a free economy and is guided mainly by Islamic Law (Sharia) has taken various measures to stimulate and encourage the private sector. Such measures include providing interest-free loans through specialized credit institutions to make up for the lack of an adequate financial structure in Saudi Arabia. The Saudi Industrial Development Fund (SIDF) grants ten-year interest-free loans to potential industrialists. The Real Estate Development Fund gives 25 year interest-free loans for private house-building with a 20% grant off the original loan. Another Estate fund will grant interest-free loans to enterprenures embarking on office-block or apartment block projects. The fund will

also lend for private hospital projects and shopping complexes. The Agricultural bank will lend money to farmers while the contractor's bank will lend money to contractors. Plots on the industrial Estates are also available at nominal rents. The new Foreign Capital Investment Law of February 1979 gives ten-year tax holidays for the foreign joint-venture partner where the foreign partner's share is not less than 25% (there is no tax on Saudi companies except for Zakat - see Appendix 9). No custom duties are payable for imported machinery (custom duties vary between 3% and 25%). A protective tariff barrier is available for national industry. A very helpful government purchasing policy also gives preference to products of Saudi industry.

A comprehensive labour law exists to facilitate the work of the private sector employers while giving rights to workers and employees (Appendix 7). Infrastructure development programmes - always a necessary factor in facilitating the smooth functioning of the private sector particularly communications facilities, ports, roads, postal and air services - have also been greatly expanded by the government.

In the following Appendices to Chapter IV extracts from the 1977 guide to industrial investment in Saudi Arabia, published by the Industrial Studies and Development Centre, Riyadh are given. Other extracts are also shown in the Appendices. The extracts are intended to complement and conclude part I, the primary intention of which is to

serve as a background coverage to the Kingdom of Saudi Arabia thus assisting the reader in appreciating Part II.

Description of Appendices

Appendix 1 gives a summary of Saudi industrial structure.

Appendix 2 gives industrial objectives, policies and incentives.

Appendix 3 lists the institutions involved in industrial promotion.

Appendix 4 outlines industrial regulations and procedures including regulations for the registration of commercial establishments (a very common form of trading unit in Saudi Arabia) as well as the registration of the different forms of business organizations.

Appendix 5 gives a list of some of the specialized financial institutions.

Appendix 6 gives infrastructure and related conditions in the Kingdom.

Appendix 7 gives information on Manpower development and labour affairs while Appendix 8 gives a summary of the existing tax system.

Appendix 9 shows the position of foreign trade.

APPENDIX 1

Industrial Structure

The Role of the Government

Industrialisation in the Kingdom is carried out by both the public and private sectors. The Government intervenes only when it is essential for the welfare of the people. It encourages all elements of the society to take part in both the process of development and its benefits. For economic diversification, the Government has been continuously encouraging the private sector to undertake industrial and other investments. When the size of investment is large and beyond the capacity of the private individuals, the Government itself undertakes capital investments. A number of organisations has now been established by the Government to develop the basic industries in the Kingdom.

Petromin

The General Petroleum and Minerals Organisation - PETROMIN - was established by the Government to develop the Kingdom's important natural resources such as crude oil, natural gas, and minerals, and especially the industries related to these. Besides conducting various activities ranging from prospecting, exploration and

drilling, Petromin has undertaken a number of activities in the field of oil, such as oil production, refining, transportation, distribution and marketing. Petromin initiated a number of studies to establish several hydrocarbon-based industries. At the end of 1975, the responsibility for developing the basic industries except petroleum refining has been shifted to the Ministry of Industry and Electricity which in its turn has created the Saudi Basic Industries Corporation (SABIC) in 1976 to promote these industries.

Basic Industrial Projects under SABIC

The Second Development Plan has a long-range programme for a number of hydro-carbon-based projects to be established in Al-Jubail on the east coast and Yanbu on the west coast. The Saudi Basic Industries Corporation (SABIC) has undertaken to implement the following projects in its first phase:

Table 1: BASIC INDUSTRIAL PROJECTS TO BE PROMOTED BY SABIC IN PHASE I

<u>Project</u>	<u>Number of Plants</u>	<u>Main Product</u>	<u>Average Capacity</u>	<u>Location</u>
Petrochemical	(3)	Ethylene	500,000 TA*	Al-Jubail
Petrochemical	(2)	Methanol	2000 TD**	Al-Jubail
Fertilizer	(2)	Urea	1700 TD	Al-Jubail
Direct Reduction	(1)	Sponge Iron	1.6 million TA	Al-Jubail
Aluminium Smelter***	(1)	Aluminium	225000 TA	Al-Jubail
Petrochemical	(1)	Ethylene	500,000 TA	Yanbu
Steel Plant	(1)	Re.bars	250,000 TA	Jeddah

* TA indicates tons per year

** TD indicates tons per day

*** dropped in 1979.

The basic responsibilities of SABIC are project preparation and evaluation along with joint venture partners, financing and the successful implementation of these projects.

A Royal Commission has also been established in 1976 to develop the necessary infrastructural facilities at Al-Jubail and Yanbu. These include the development of (a) power, water and waste systems, (b) transportation and harbour systems, (c) telecommunication system, (d) manpower resources development and training, and (e) community development.

Private Sector Manufacturing

Most of the non-oil manufacturing establishments are in the private sector. Important exceptions are grain silos, flour and feed mills, Jeddah rolling mill, and the fertilizer project (SAFCO) which are in the public sector.

According to a survey conducted by the Central Department of Statistics, and the information available at the Centre (ISDC), there were about 9000 non-oil manufacturing establishments in the Kingdom in 1392 (1972) which employed a total of about 36,000 workers. Among these establishments, there were about 373 units which individually employed 10 or more workers. All others had an individual employment of less than 10 workers.

According to preliminary estimates made by the ISDC, the total number of non-oil manufacturing establishments has

gone to about 10,000 units employing about 42,000 workers which contributed approximately SR 900 million in gross value added in 1394/95 (1974/75), the terminal year of the First Development Plan.

Some Characteristics of Non-Oil Manufacturing

In 1397 (1976), the Industrial Studies and Development Centre conducted a survey of non-oil manufacturing establishments employing 10 and more workers in the Central, Western and Eastern Regions of the Kingdom. The survey data are at present being analysed. Some characteristics of the non-oil manufacturing sector are given in Table 2 on the basis of preliminary analysis.

There is a basic metal project (steel rolling mill) in Jeddah with a total employment of 301 workers and about SR 54 million total investment.

Of all other subsectors, chemical and plastic (ISIC 35) employs the highest amount of invested capital per worker (SR 266,000) while the average for the whole sector is SR 98,000. This subsector, therefore, has the highest amount in value added per capital (SR 105,200) and per unit (SR 8,604,000). The main reason for this large deviation of this group of industries from the others is its inclusion of the Saudi Fertilizer Company (SAFCO) in the Eastern Province.

Table 2: SOME CHARACTERISTICS OF NON-OIL MANUFACTURING IN 1394/95 (1974/75)

(Establishments employing 10 and more workers)

ISIC Industry Groups	Units Surveyed	Employment Number	Capital ¹ per Unit (SR 000)	Employment per Unit	Net Value ² Added per Unit (SR 000)	Capital ¹ per Worker (SR 000)	Net Value ² Added per Worker (SR 000)
31 Food and Beverages	49	2998	2057	61	1080	33	17.6
32 Textile and Products	9	443	1993	49	604	40	12.3
33 Wood and Product	16	325	671	20	649	33	32.0
34 Paper and Printing	40	1697	2008	42	1052	47	24.8
35 Chemical and Plastic	22	1799	21818	82	86 - 4	266	105.2
36 Non-Metallic Mineral Products (Excl. Petroleum)	44	4577	13816	104	3415	132	32.9
37 Basic Metal	1	301	54095	301	7171	180	23.8
38 Fabricated Metal	79	2770	1384	35	918	39	26.2
39 Others	6	323	4854	54	3768	90	70.0
40 Total/Average	266	15227	5602 ³	57 ³	2078	98 ³	36.3 ³

Notes: 1' Capital figures are at unadjusted book values

2 Value-added figures are in 1394/95 (1974/75) prices

3 These are average figures

Source: ISDC, Survey of Manufacturing Establishments, 1396 (1976)

Growth of Licensed Industrial Projects

Up to the end of 1393 (1973), the Kingdom sanctioned licences to 390 manufacturing projects with a total planned capital investment of about SR 889 million. However, since then certain conditions changed dramatically. The Kingdom's oil revenue increased significantly thus making the capital funds abundant. For the private sector various incentive measures were either freshly introduced (the creation of the Saudi Industrial Development Fund) or strengthen. The Second Development Plan was launched in 1975 during the time of national optimism.

The private sector responded to the incentive measures introduced by the Government. During the period of 3 years since 1393 (1973), the licensed establishments in the non-oil manufacturing sector increased by an additional number of 508 units with the additional planned capital investment of SR 4,38 million. Table 3 shows the total number of non-oil manufacturing establishments in various sub-sectors with their respective capital investments and employment. It is important to mention here that in addition to these licenced units, there are about 9000 unlicenced establishments, very small in size in terms of capital or labour employed. These are concentrated mostly in bakery and tailoring activities. Their combined contribution is less than $\frac{1}{2}$ of the total gross value added of the entire non-oil manufacturing activities.

During the first year (1975/76) of the current Second

Development Plan alone as many as 279 manufacturing projects have been licenced with estimated total capital expenditure of about SR 3,875 million. Out of these, 72 will be joint ventures with foreign collaboration.

It is the desire of the Government that the private sector would step up the implementation of the projects licenced. Recently, the Government has cancelled some of the industrial licences since the investors were taking a long time in actually implementing them.

Table 3: CHARACTERISTICS AND DISTRIBUTION OF LICENCED ESTABLISHMENTS, AMONG THE VARIOUS

SUBSECTORS UP TO THE END OF 1396 A.H.

ISIC No	Industrial Grouping	Number of Establishments		Licenced Capital		Number of Workers	
		No	%	Million (SR)	%	No	%
31	Manufacture of Food, beverages and tobacco	112	12.5	397	7.5	4,973	10.3
32	Textile, wearing apparel and leather industries	25	2.8	87	1.6	1,514	3.2
33	Manufacture of wood products including furniture	39	4.3	139	2.6	2,120	4.4
34	Manufacture of paper and paper products, printing, publishing	60	6.7	151	2.9	1,801	3.7
35	Manufacture of chemical and chemical petroleum, coal, rubber and plastic products	115	12.8	766	14.5	5,245	10.9
36	Manufacture of non-metallic mineral products	290	32.3	2,971	56.3	20,459	42.5
37	Basic Metal Industries	30	3.3	313	6.0	2,348	4.9
38	Manufacture of fabricated metal products, machinery and equipment	219	24.4	436	8.3	9,359	19.5
39	Other manufacturing industries	8	0.9	16	0.3	304	0.6
	Total	898	100	5,276	100	48,123	100

SIDF Loan for Manufacturing

Mention was made about granting generous loans through the Saudi Industrial Development Fund. As can be seen in Table 4, up to the end of January, 1977, there were about 560 loan applications of which 209 were sanctioned by the SIDF. The amount of loans committed was about SR 4169 million of which about SR 2669 million (or about 64% of the total) went to electric companies. Among the manufacturing projects, establishments concerning building materials were 56 with a total sanctioned amount of SR 738 million. This subsector accounted for over 49% of all industrial loans granted by the Fund.

Table 4: SAUDI INDUSTRIAL DEVELOPMENT FUND - APPLICATIONS AND LOANS BY INDUSTRY UP TO
END JANUARY, 1977 (In SR'000)

Industry Classification	No of Appls	%	Total Loan Requested	%	No of Loans	%	Loan Commitments	%
INDUSTRIAL								
Automatives	14	2.89	193,489	2.76	4	2.76	12,318	0.82
Textiles	6	1.24	58,024	0.83	3	2.07	46,649	3.11
Chemical/Gas/Medical	18	3.72	642,532	9.17	7	4.83	46,215	3.08
Plastics	20	4.13	112,212	1.60	12	8.26	47,993	3.25
Paper Processing/Printing	25	5.17	202,730	2.89	4	2.76	27,000	1.80
Metal Products	69	14.26	1,165,002	16.64	28	19.31	348,076	23.21
Building Materials	192	39.67	1,968,469	28.11	56	38.62	737,952	49.21
Furniture	17	3.51	77,322	1.10	10	6.90	35,779	2.38
Food and Beverages	26	5.37	300,183	4.29	7	4.83	42,060	2.80
Agro Business	18	3.72	414,770	5.92	2	1.38	62,000	4.13
Shipping	30	6.20	1,289,401	18.41	2	1.38	67,500	4.50
Miscellaneous	49	10.12	579,910	8.28	10	6.90	25,770	1.71
Total	484	100%	7,003,044	100%	145	100%	1,499,312	100%
INDUSTRIAL	484	86.43	7,003,044	72.40	145	69.37	1,499,312	35.96
ELECTRICITY	76	13.57	2,669,240	27.60	64	30.63	2,669,240	64.04
GRAND TOTAL	560	100%	9,672,284	100%	209	100%	4,168,552	100%

Table 5: SAUDI INDUSTRIAL DEVELOPMENT FUND - APPLICATIONS AND LOANS BY INDUSTRY UP TO OCTOBER 1976 (In SR'000)

Industry Classification	No of Applns	%	Total Loan Requested	%	No of Loans	%	Loan Commitments	%
Electric Utilities	73	14.93	2,242,309	28.57	59	34.49	2,242,309	60.91
Automotives	12	2.45	184,725	2.35	5	2.96	13,188	0.39
Textiles	6	1.23	58,024	74	3	1.75	45,524	1.24
Chemical/Gas/Medical	14	2.86	529,325	6.74	7	4.09	46,215	1.26
Plastics	17	3.48	103,737	1.30	9	5.26	31,229	0.85
Paper Processing/Printing	23	4.70	167,003	2.13	3	1.16	21,000	0.57
Metal Products	62	12.68	1,136,261	14.48	21	11.69	310,178	8.43
Building Materials	174	35.58	1,676,258	21.36	57	24.56	732,370	19.89
Furniture	17	3.48	77,322	0.99	7	2.36	33,834	0.92
Food and Beverages	23	4.70	214,736	2.74	8	4.09	88,060	2.39
Agro-Business	17	3.48	410,935	5.24	3	1.75	20,050	0.54
Shipping	20	4.09	718,584	9.16	2	0.58	67,500	1.83
Miscellaneous	31	6.34	329,858	4.20	9	5.26	29,950	0.81
	489	100%	7,849,077	100%	193	100%	3,681,377	100%

APPENDIX 2

Industrial Objectives, Policies and Incentives

Objectives

The overall objective of the Kingdom is to transform the economy from the overwhelming dependence on export of crude oil into a diversified industrial economy, although the dependence on the export of crude oil will continue for a considerable period of time since oil revenues are the chief means through which the Kingdom can finance its economic and social development programme.

In the non-oil manufacturing sector, the objectives are:

- (i) to increase the economy's capacity to produce at competitive costs as wide range of products for domestic as well as for export markets;
- (ii) the industrial exploitation of the substantial comparative advantages arising from low cost energy, raw materials from hydrocarbon related industry, minerals, agricultural and fishery resources;
- (iii) widening and deepening the Kingdom's access to modern technology;

- (iv) to encourage fuller utilisation of capacity in the private manufacturing sector;
- (v) to secure regionally balanced development of industry;
- (vi) to increase productivity through closer approach to optimal size of plants;
- (vii) to reduce dependency on expatriate workers by national skill creation, through the development of general and technical education and on-the-job training of national workers; and
- (viii) to promote interlinkage among industries.

INDUSTRIAL POLICY AND INCENTIVE MEASURES

In its desire to achieve the maximum economic and social benefits for Saudi nationals from industrial development, and in order to familiarize the ministries and government departments and the business community within and outside the Kingdom with the basic policy of the Government regarding industrial development, the main principles of the industrial development policy of the kingdom were announced in 1394 (1974) as stated below:

- (i) The Government aims at encouraging and expanding manufacturing industries, including agricultural industries, which can effectively contribute to the increase of

national income, to raising the standard of living and employment and to diversification of the economy of the Kingdom. For diversifying the economy, the Government will work towards the adoption of plans which, beside increasing the national income, will reduce the effect of outside economic disturbance on the Kingdom and diversify the opportunities open to the increasing abilities and technical capabilities of people of Saudi Arabia.

(ii) In view of the fact that the economy of the Kingdom is based on competition between the private commercial and industrial enterprises, the Government realises that the objectives of industrial development may be more effectively attained if the business community bears in the long run the responsibility of implementing industrial projects. Accordingly, businessmen who are prepared to take the risks of success and failure, motivated by prospects of profits, will enjoy the full support of the Government during all stages of preparation, establishment and operation of industrial projects which are beneficial for the Kingdom. The Government is also ready to supplement the efforts of businessmen in the private sector by establishing, financing and participating in the management of the large industrial projects of those requiring wide technical experiences and which the private sector cannot undertake alone.

(iii) The Government considers that competition serving the interests of local consumers is the best means of influencing the business community in the industrial field

towards beneficial manufacturing and market-oriented projects. The Government also considers that competition is the most effective means for selecting the investment schemes which suite the market requirements, for encouraging low cost production and for fixing fair prices for both consumer and producer. However, the Government will not permit harmful foreign competition, such as dumping.

(iv) To ensure that businessmen who are ready to participate in the industrial development of the Kingdom are acquainted with the information required for identification, implementation and successful operation of feasible projects, the Government shall, from time to time, familiarize them with the industrial and feasibility studies and other useful information that may be available. The Government shall also provide existing industrial establishments with the services available in the management and technical fields.

(v) In order to encourage businessmen to invest in projects of prospective benefit to the national economy, the Government is prepared to offer encouraging and financial incentives to all industrial sectors as to make it possible for every well-conceived and well-managed project within this sector to realize reasonable profits for the investors. The Government will grant the same incentives to all projects within the sector, it being understood that these incentives shall be given in accordance with the regulations without delay.

The incentives may include the following:

- a) provision of loans and participation in equity under encouraging conditions;
- b) assisting businessmen in the formation and organization of new industrial companies;
- c) provision of assistance in the selection of industrial projects, in the preparation of their economic feasibility studies and in evaluating them;
- d) extending operational assistance, (technical and financial);
- e) exemption of imported equipment and primary materials from custom duties;
- f) exempting the share of the foreign partners from taxes on the profit of the company as provided in the Foreign Capital Investment Statue;
- g) giving preference to local producers in government purchases;
- h) imposition of protective custom tariffs on competing imports;
- i) providing accommodation in industrial areas;

- j) granting subsidies for training Saudi employees; and
- k) providing assistance for the exportation of products.

(vi) To enable organising the assistance granted by the Government to industry and make it more effective, and appreciating the necessity of providing an atmosphere of security to industrial investors ensuring that they would realise the hoped for benefit from the projects set by them in the light of the available market demand, the State is adopting the principle of licencing of industrial projects which exceed a specified size of invested capital, employment or product in capacity, it being understood that an application for licence shall not be refused except for practical considerations relating to the supreme national interest or to the national economy.

(vii) When the Government establishes large and important industrial projects which the private sector cannot undertake, it shall make efforts for the private sector to participate in them as much as possible. In such cases and in cases where the Government participates in the capital of private projects to supplement the investments of the private sector in them, it is the policy of the Government in respect of industries other than those relating to national security - to sell the share it owns in its to the public in due course if this serves the public interest.

In the cases in which the Government finds it necessary to assume the responsibilities of management of an enterprise

because of the inability of the businessmen to operate it, the Government will hand back these responsibilities to the businessmen as soon as possible. In all cases the policy of the Government is that it shall be a partner and not a competitor to the producers in the private sector.

(viii) The Government shall do its utmost to avoid imposition of quantitative restriction or of control on prices as a means for implementing its industrial policy. The Government shall not impose restriction except in the cases in which competition cannot have an effective role, as in the case of commodities which by their nature are characterized by monopoly.

(ix) The Government recognizes the right of the business community in the industrial field to select, utilise and manage the economic resources, including industrial workers, in so far as this does not contravene statues in force, in order to raise the productive efficiency of industry to the maximum.

(x) The Government welcomes foreign capital as well as foreign expertise and their participation in the industrial development projects in cooperation with Saudi businessmen. The Government, recognizing the benefits to the industrial development of the Kingdom of the entry of foreign capital accompanied by administrative and technical capability and ability for international marketing, assures investors that it will always avoid imposing any restrictions on the entry and exit of money to and from the Kingdom and that it shall

continue its policy based on the respect of private ownership in the Islamic Law (Shari'a).

(xi) The Government shall provide the public utilities and make the basic arrangements necessary for the setting up of economically feasible industries. Appreciating the dependence of industry on the general development of the Kingdom, the Government will promote the growth of all economic sectors in order to make available for the producers suitable local resources in sufficient quantities and the increase of purchasing power of consumers within a framework of an evergrowing national economy.

SUMMARY OF INCENTIVES CURRENTLY GRANTED TO THE PRIVATE (MANUFACTURING) SECTOR

1. Land: Sites in Industrial estates are available at an annual rental of SR 0.08 per square meter. There are a number of estates which are currently being developed by the Government (see Chapter 5). The estates will have all utilities available. Rental or sales costs of lands outside the estates are extremely high.

2. Utilities: Electric power is supplied at a subsidised cost of SR 0.05 per KWh. Water rate is also subsidised, presently costing SR 0.25 per cubic meter. Gas and fuel are very cheap in the Kingdom.

3. Duty Exemption: There is custom duty exemption for virtually all imported goods used by industry.

4. Company tax: Pure Saudi companies, whether in industry or trade, are fully exempted from company taxes. However, they pay a small rate for Zakat (a religious levy amounting to 2.5 per cent on liquid assets).

Foreign companies are taxed at the rate of 25 - 45 per cent of their profit. If, however, these are joint ventures with a minimum of 25 per cent Saudi participation in equity capital, such companies are granted tax exemption (tax holiday) for the first ten years of commercial operation.

5. Industrial Loans: The Saudi Industrial Development Fund (SIDF) makes loans up to 50 per cent of the total project cost for a term of 5 to 10 years, with a grace period of about one to 1.5 years, and at an "administrative fee" of 2%.

6. Government Preference for Domestic Products: Domestic firms receive a preference of 10% on Government contracts over others.

APPENDIX 3

Institutions for Industrial Promotion

There are a number of institutions with directly or indirectly promote industrialisation in the Kingdom. A brief description of these is given below:

The old Central Planning Organisation (CPO) has been raised to the status of a full-fledged ministry by a Royal Decree in 1975, at the date of the appointment of the present cabinet. It is given the following responsibilities:

- (i) preparation of periodical reports on the various aspects of the country's economy.
- (ii) formulation of economic and social development plan, in accordance with the needs and requirements of the various ministries.
- (iii) follow-up of planned projects and reporting to the Council of Ministers about the stage of Plan's execution.
- (iv) estimation of financial outlays for projects approved by the Council of Ministers.
- (v) conducting economic studies and making necessary recommendations.

The second development Plan launched in 1975 embodies all the sectoral and subsectoral development programmes submitted by the respective Ministries and Departments. The Ministry of Planning determines the physical size and financial allocation for the industry sector in the general framework of the Kingdom's overall development.

Its section on industrialisation summarises the existing conditions, projections and the various incentives for both hydrocarbon and non-hydrocarbon-based industries in the Kingdom.

THE MINISTRY OF INDUSTRY AND ELECTRICITY

The old Ministry of Commerce and Industry was bifurcated into two separate Ministries. The Ministry of Industry and Electricity, and the Ministry of Commerce.

The major functions of the Ministry of Industry and Electricity are:

- Realisation of a steady and balanced industrial development in the Kingdom.
- Creation of suitable atmosphere for protection and encouragement of domestic industries in a manner that the targets of the Kingdom's projected industrial plan are fully achieved.
- Design policies and adopt suitable actions so that the

less developed regions of the Kingdom can attain sufficient industrial growth.

The Minister of Industry and Electricity is the Chairman of a number of autonomous organisations such as Industrial Studies and Development Centre (ISDC), the recently established Electricity Corporation and Saudi Basic Industries Corporation (SABIC).

For detailed working of the Ministry, it has recognised a number of departments with specific responsibilities.

The Ministry of Industry and Electricity has two Deputy Ministers - one for Industrial Affairs and the other for Electrical Affairs.

(a) The Deputy Minister for Industrial Affairs's supervisors the following departments/committees:

(i) FOREIGN CAPITAL INVESTMENT COMMITTEE

It has a Secretariat in the name of Foreign Capital Investment Bureau to process the foreign investment applications for the purpose of licensing. (The Section on Foreign Investment Regulations elsewhere in this Guide has discussed the functions of this Committee).

(ii) INDUSTRIAL PROTECTION AND ENCOURAGEMENT DEPARTMENT

Briefly stated, the functions of this department are to

supervise the application of the "Regulations for Protection and Encouragement of National Industries". It deals with such issues as granting privileges, franchises, exemptions, subsidies and recommending tariff protection to deserving national industries.

(iii) INDUSTRIAL ESTATES DEPARTMENT

This department has the responsibilities to supervise the existing estates as well as those to be set up in the future.

(iv) INDUSTRIAL LICENCES DEPARTMENT

In brief, this Department examines and evaluates the application forms and other related documents submitted by potential investors for industrial licences, whether for setting up new industries or for expansion of old ones.

(v) PROJECTS AND ENGINEERING DEPARTMENT

The main responsibilities of this Department are to render engineering and technical services to the Ministry's various departments and to provide technical supervision over the Ministry's projects.

In addition to the above-named departments, the Deputy Minister of Industrial Affairs has an Industrial Technical Bureau to assist him in technical matters, and a General Department for handling personnel and administration matters.

(b) The Deputy Minister for Electrical Affairs has two main departments, viz, Companies Financial Control Department and Companies Technical Control Department.

Previously there was a Power Development which has now been cancelled and an autonomous organisation has been formed under the title of "Electricity Corporation", headed by a Governor.

INDUSTRIAL STUDIES AND DEVELOPMENT CENTRE (ISDC)

Conceived as a United Nations Development Programme Special Fund Project, the Industrial Studies and Development Centre (ISDC) was established by a Royal Decree issued in 1386 (1966). The Centre is an autonomous body governed by a Board of Directors with the Minister of Industry and Electricity as the Chairman and its Director General as the principle executive. The headquarters of the Centre are located in Riyadh and it has branch offices in Jeddah and Dammam.

The Centre was established to:

- (i) conduct industrial researchers, opportunity and feasibility studies;
- (ii) give advice and consultation on formulation of industrial policies, plans and programmes and on the implementation of industrial projects;

- (iii) provide technical assistance to existing industrial enterprises;
- (iv) supervise planning, construction and operation of industrial estate.

Functionally, the Centre is divided into (i) an Industrial Research Department; (ii) a Technical Services Department (iii) an Information and Documentation Department (iv) an Evaluation and Follow-up Department, and (v) an Administration Department.

The Centre has planned and supervised the construction of the industrial estates in Riyadh, Jeddah and Dammam. The supervision of the existing as well as those to be developed has now been entrusted to the Ministry of Industry and Electricity.

The Centre has completed a comprehensive Survey of Industrial Establishments and produced a 3 - volume report. A further survey on a census basis has been conducted under the joint auspices of the Central Department of Statistics and the Centre for incursion in the Techno-Economic Industrial Structure and Growth Prospects. It has also completed a study on Socio-Economic Conditions of Saudi Labour and produced a set of 3 volumes. A report on Projections for the Manufacturing Sector for the First Development Plan was prepared a comprehensive study on "Non-Oil Manufacturing in the Private Sector: Present Conditions and Projections for the Second Plan" which has

been used extensively for the preparation of the industrial section of the Plan. A number of other studies have been conducted, such as on tariff protection, foreign investment, encouragement of industry through Government purchases. Other industry studies include those on plastic footwear, confectionery, biscuits, tanning and leather goods and foam rubber industries. Several feasibility and opportunity studies have been completed such as those on ceramic tiles and sanitary water, kraft paper, electric wire and cable, sheet glass, vegetable oil and ghee, cast-iron stoves, and canning of fruit juice.

The Centre organises from time to time seminars on important topics. The information and documentation services have been extended to industry by furnishing statistical and other information. The centre publishes "Alam Al-Sinaah" every six months, with articles contributed by experts in the field of industry, and a bimonthly bulletin which gives out information on current developments and opportunities.

The Centre has given extension services to a large number of small and large industrial establishments. The areas of study covered a wide variety of operational conditions and management areas, such as plant lay-out, material and equipment selection, costing and cost procedures, quality and inventory controls. The services included studies on several industrial establishments in one or more of the areas covered.

The Centre has been called upon by various ministries to give technical and economic advice and consultation and has

participated in committee and expert groups engaged in the study and examination of economic, financial and industrial problems. It has acted as a liaison between the Government and industry and advised the Government departments and agencies on policy and procedural matters to further industrial development.

The Centre has built up an industrial laboratory for the benefit of private industry. The Centre has already established a common facility workshop in the Riyadh Industrial Estate with the capacity to design, manufacture and repair press tools, moulds, jigs and fixtures, and various other spare parts. Similar workshops are being commissioned in the Jeddah and Dammam Industrial Estates which are expected to start operation by the end of 1977.

The Electricity Corporation

This Government agency has been established in Riyadh by Royal Decree No M/55 dated 2/7/1397 (1976). Its main functions include the implementation of the plans and programmes for the electrification of all the regions of the Kingdom. In order to perform its functions, the Corporation can specifically:

- (i) propose a phased programme for the electrification of the Kingdom,
- (ii) establish electricity projects,

- (iii) by shares in the capitals of electricity projects,
- (iv) sell its shares in such projects to the general public whenever circumstances and general welfare dictate such an action,
- (v) receive, manage and operate all projects previously owned by the Government. In so doing it shall receive all the funds and jobs approved in the Ministry of Industry and Electricity's budget pertaining to these projects, and at the same time the Corporation shall undertake to fulfill all the Government's duties towards these projects,
- (vi) shall make any agreements or contracts with foreign or Saudi consultants, companies, establishments, factories or importers, whenever necessary to perform its duties.

GENERAL PETROLEUM AND MINERALS ORGANISATION

The General Petroleum and Minerals Organisation (PETROMIN) was established by the Government in 1392 to undertake the following functions:

- (i) implementation and administration of petroleum and mineral projects in the Kingdom,
- (ii) importation, directly or through agents, of the mineral needs of the country,

- (iii) preparation (on its own or through others) of studies and carrying out of operations entrusted to it by the Government, with regard to searching for, producing, refining, purchasing, selling, transporting distributing and marketing petroleum and minerals at home and abroad,
- (iv) establishing cooperation with private companies and organisations for undertaking petroleum or mineral activities, and
- (v) establishing companies or enterprises and participating in their capital, at home or abroad.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC)

Presently wholly owned by the Government, this joint stock corporation has been established in 1976 with the following responsibilities:

- (i) Implementation of petrochemical, fertilizer and other hydro-carbon based industries.
- (ii) Implementation of iron and steel, and aluminium industries.
- (iii) Implementation of other basic industries which the private sector does not wish to undertake.
- (iv) Execution of projects necessary to supply the

Corporation with its raw material requirements.

- (v) Marketing industrial products inside and outside the Kingdom.

The Corporation may carry out other industrial, commercial and financial activities which it might deem necessary to realise its objectives. The companies that may be established or participated in by this Corporation shall enjoy all exemptions and privileges granted to national industries.

The duration of the Corporation is fifty years which may be extended by a decision taken by the Extraordinary General Meeting. Within six years from the date of incorporation, the Government shall sell 75% of the shares by the normal procedures followed in issuing shares of joint stock companies for general subscription. The Government shall retain 25% of the corporation's shares.

The capital of the Corporation is SR 10,000 million into 10 million shares totally subscribed by the Government.

The Head Office of the Corporation is in Riyadh.

The Corporation is managed by a Board of Directors of seven members of which at least two must be the Government representatives. The first Board of Directors consists of five Government representatives and two from the private sector. It has a seven year's duration. The Minister of

Industry and Electricity is the Chairman of the Board, and one of the members of the Board has been appointed its Chief Executive Officer to hold office on a full time basis. The Chief Executive Officer is also the Vice Chairman of the Board.

THE GRAIN SILOS AND FLOUR MILLS ORGANIZATION

This organization came into existence by Royal Decree No M/14 issued on 25/3/1392 (1972) as an autonomous body with the purpose of establishing and operating an integrated system of grain silos, flour mills and animal feed producing units. It can also establish any other related food industries for local or export markets and maintain, through import, a stockpile of wheat to cover the Kingdom's needs for six-months in emergencies.

There will be grain silos and flour and feed mills in Riyadh, Jeddah and Dammam. Work has started in building the Riyadh Grain Silos in March 1976, storing and production activities are planned to start in 1977.

Other projects are to follow and the Organization reports that by 1979 all these projects shall be in full operation.

Project	Jeddah	Riyadh	Dammam	Total
Units	Complex	Complex	Complex	
Grain Silos	120,000 tons	80,000 tons	80,000 tons	280,000 tons
Flour Mills	1,080 tons/day	540 tons/day	540 tons/day	2,160 tons/day
Feed Mills	100 tons/8 hrs	100 tons/8 hrs	100 tons/8 hrs	300 tons/8 hrs

In order to encourage local production of wheat, the Organization has planned for the establishment of a grain silos complex, of 20,000 tons capacity, in the Qaseem area. This project shall be in operation in the middle of 1978, and shall be the first step towards expansion into flour and feed mills in that area. Other similar projects may be established in other parts of the Kingdom.

SAUDI ARABIAN STANDARDS ORGANIZATION (SASO)

Established in 1972, the Saudi Arabian Standards Organization is run by a Director General as its Chief Executive Officer and a Board of Directors, under the chairmanship of the Minister of Commerce.

The Organisation's functions are, among other things, to lay down the rules for granting certificates and those for compliance with national standards, and to set the national standards for the various industrial products.

THE DIRECTORATE GENERAL OF MINERAL RESOURCES (DGMR)

The Directorate General of Mineral Resources (DGMR) was established under the Ministry of Petroleum and Mineral Resources to conduct geological surveys, mapping, exploration and studies regarding mineral resources in the Kingdom. This organization has conducted a number of studies which have revealed the existence of different kinds of metals and minerals in various parts of the Kingdom, as shown in Chapter 2 of this Guide. This Directorate is an important

institution for economic development especially in the area of minerals exploitation for industrial uses.

CHAMBERS OF COMMERCE AND INDUSTRY

There are at present five Chambers of Commerce and Industry in the Kingdom located at Riyadh, Jeddah, Mecca, Medina and Dammam. Establishment and working of the chambers are regulated under a statute authorised by Royal Decree.

Every chamber has an administrative committee to guide its operation. Two-thirds of the members of the committee are elected while one-third are nominated by the Ministry of Commerce.

The functions of the chambers include giving assistance to the members in making contacts with foreign collaborators, in securing government bids and in settlement of industrial disputes. They publish journals and bulletins and disseminate other commercial and industrial information. The chambers serve as an agency of mutual cooperation among industrialists and businessmen and help to draw the attention of the government and other agencies to problems faced by industry and to the need for official assistance. They recommend necessary policy modifications needed to promote industrialization. The Chambers also authenticate documents for which they charge some fees ranging from SR 10 to SR 50 per piece.

Industrial establishments may join Chambers of Commerce and

Industry by filling in application forms and depositing the required subscription.

APPENDIX 4

Industrial Regulations and Procedure

INDUSTRIAL LICENCING:

An industrial licence is issued under wither of the following two governing codes:

- a) The Regulations for the Protection and Encouragement of National Industries, which cater for industrial projects wholly owned and controlled by pure Saudi capital, and
- b) The Foreign Capital Investment Regulations, which control the establishment of pure foreign capital or joint venture projects (between Saudi and foreign capital).

According to the rules specified by the Ministry of Industry and Electricity, all foreign and joint venture projects, and pure Saudi projects (the capital of which exceeds one million Saudi Riyals in fixed assets (excluding land and buildings) must obtain a licence. Other Saudi projects with capitals below one million Saudi Riyals are also encourage to obtain licence but a licence for expansion of these projects to reach up to one million Saudi Riyals in fixed assets in madatory.

LICENCING PROCEDURE

Investors wishing to set up a manufacturing unit are required to carefully fill the Application form for Industrial Licence, attaching with it a copy of the feasibility study for the project. In cases where a foreign partner is involved a copy of the partnership contract shall also be submitted. Pure Saudi capital projects are dealt with at the Department of Industry of the Ministry, while foreign and joint venture projects are processed by the Foreign Capital Investment Committee, also at the Ministry.

In the lack of a feasibility study, investors shall seek the advice of the Ministry on the projects under consideration and shall have their names and addresses registered in a provisional register pending their submission of the feasibility study. A grace of six months is allowed in most cases for the completion of such a study.

Special units at either the Licencing Department of Industry or the Foreign Capital Investment Committee, which ever is relevant, will review the application forms and feasibility studies and shall make their recommendations to the Minister of Industry and Electricity for final approval and issue of the industrial licences.

It must be mentioned here that such reviewing and evaluating committees are mainly interested in securing the investors' interest and profitability, by checking the data upon which the feasibility study is based. The committee may suggest

better kinds of equipment or processes for the manufacturing unit applied for or may propose a change in production capacity or the plant location in accordance with the overall industrial development plans.

All feasibility studies must try to answer the following points in details:

- 1) An analysis of local and foreign markets in which the proposed product is planned to be marketed. Such analysis shall include information on foreign and competing brands, ie quality, and price factors.
- 2) Proposed annual production capacity.
- 3) Raw materials required for production their sources, current prices and quantities.
- 5) Description of the required machinery and equipment, their sources and prices.
- 6) Management and labour requirements and means suggested to secure them, as well as their cost.
- 7) General utilities (water and electricity) requirements.
- 8) Distribution and marketing plans.
- 9) Any other relevant data, eg unit sale prices and profitability.

- 10) Economic and financial analysis including project financing, sources of funds, cash flow projection, etc.

COMMERCIAL REGISTRATION

Every industrial or commercial establishment is required to be registered under the Statue of Commercial Registration with the Commercial Registration Offices maintained by the Ministry of Commerce at various leading cities and towns of the Kingdom. Branches of foreign business establishments or Saudi agents representing them must obtain prior approval of the Foreign Investment Committee after which they have to be registered within one month of the commencement of business. When additional units or branches are established, these also should be registered within one month. Similarly, alterations in particulars are required to be reported within one month of their occurrence.

PROTECTION AND ENCOURAGEMENT OF NATIONAL INDUSTRIES

The Statue for Protection and Encouragement of National Industries, 1381, covers both existing and new industrial enterprises. It provides for the following privileges to industry.

- (i) Exemption from custom duties on imports of machines, tools, instruments, spare parts, raw materials (primary or semi-manufactured), packaging materials including cases and cylinders.

- (ii) Provision at nominal rental of land for factories and for industrial housing.
- (iii) Protection to industry by way of:
 - (a) limiting or prohibiting imports of competitive products
 - or
 - (b) raising custom duties on the imports of competitive products.
- (iv) Financial assistance to industrial enterprises.
- (v) Exemption from custom duties and other taxes on all exports of locally manufactured goods.

The privileges enumerated under (i) and (ii) are granted with the approval of the Minister of Industry and Electricity on the recommendations of the Technical Industrial Bureau in the Ministry. The privileges enumerated in (iii) and (iv) are granted by the Council of Ministers on the recommendation of the Ministry. The privilege in (v) is authorized by a Royal Decree issued pursuant to a decision of the Council of Ministers.

The following conditions are to be fulfilled to qualify for the privileges:

- (a) submit all required information and allow inspection by the Ministry officials;

- (b) use the machinery and materials for the purposes and in the factories for which the exemptions have been granted; and
- (c) employ only Saudi labourers and technicians except to the extent approved by the Ministry of Labour and Social Affairs.

EXEMPTION PROCEDURE

Well in advance of the arrival of goods, the importer should submit an application to the Ministry of Industry and Electricity, giving description of the consignment, name of the exporter, the country of origin, the port or point of entry, numbers and dates of invoices and quantity and prices in foreign currencies.

With the application should be attached ten copies (8 copies in Arabic) of preliminary invoices of goods to be imported, giving full specifications of goods, their quality and value. The application should carry an undertaking in the prescribed form, stating that the goods will be used for the banafide purposes of the factory.

FOREIGN CAPITAL INVESTMENT CODE

The regulation and encouragement of foreign investments are governed by a Code promulgated by a Royal Decree issued in 1383 substituting a previous Royal Decree issued in 1376.

"Foreign capital" covers monetary flow of capital, financial and commercial papers, machinery and spare parts, raw materials and finished products, means of transportation, inventions, patents and trademarks owned by individuals or corporate bodies of non-Saudi nationality. Investments in petroleum and mineral projects are governed by separate concession contracts to be negotiated with the Ministry of Petroleum and Mineral Resources.

The foreign capital which seeks to have the benefits from the regulation must satisfy two conditions: (i) that the capital is invested in an economic project; and (ii) that such investment is licenced by the Ministry of Industry acting on the recommendation of the Foreign Capital Investment Committee.

Every foreign investor is required to apply in the prescribed form in triplicate for a licence to the Foreign Capital Investment Office in the Ministry of Industry, which scrutinizes the applications for consideration of the Foreign Capital Investment Committee constituted under the Code. The prescribed application includes information on the legal status of the applicant with complete incorporation data, proposed items of production with information on local competing firms, description of manufacturing process and machinery raw materials and manpower requirements, plan for training of Saudi personnel and workers, value of the projects, feasibility studies, information on costs, and marketing programmes.

The Committee consists of the Deputy Minister of Industry (Industrial Affairs) as Chairman and representatives of the Ministries of Finance and National Economy, Agriculture, Petroleum and Mineral Resources, and of the Planning as members, and the Director of the Foreign Investment Office of the Ministry of Industry as the Secretary. The Deputy Director General of the ISDC is an advisor to the committee. The functions of the Committee include (i) determination that investments are intended for economic development projects; (ii) examination of complaints and claims, (iii) recommendation of penalties; and (iv) preparation of rules.

The resolutions of the Committee are subject to the approval of the Minister of Industry and Electricity. The Foreign Capital Investment Office gives assistance to the applicants in furnishing the necessary information and facilitates in compliance with other formalities.

The Royal Decree extends to enterprises with foreign capital subject to specific approval, all privileges enjoyed by national capital under the statute for Encouragement and protection of National Industries. It also exempts these industrial enterprises from income tax for a period of 5 years from the commencement of production, provided the project has a local equity capital participation of not less than 25 per cent. If the project was in operation before the promulgation of the Royal Decree, the facilities extended by the Royal Decree are available only for additions to the existing capital.

Every licenced establishment is liable to be notified by the Minister of Industry and Electricity to observe certain terms within the time limit prescribed. If these terms are not fulfilled the licence is liable to be cancelled. The decision to withdraw the licence or to liquidate the establishment may be appealed against to the Grievances Board within one month following the date of the decision.

PROCEDURE FOR LICENCING FOREIGN CAPITAL PROJECTS AND JOINT VENTURES

A INDUSTRIAL (MANUFACTURING) PROJECTS

1 Investors wishing to establish a manufacturing project completely or partly (Joint Venture) owned by foreign capital, are required to submit an application to the Ministry of Industry and Electricity (Foreign Capital Investment Bureau), requesting the registration of their names in the provisional register, pending the completion of their detailed feasibility study.

2 The "Industrial Licencing Department" at the Ministry shall consider the probabilities of the establishment of the manufacturing unit applied for in the light of the latest economic and market data available.

3 A six-months grace period shall be allowed for acceptable project applications, during which a detailed economic feasibility study shall be prepared by the project proponents. An extension of this grace period can be granted on the basis

of convincing reasons. However, the Ministry retains the right of rejecting applications whenever the available industrial marketing and economic data dictate such an action.

4 In cases where a feasibility study has already been completed, direct application for an industrial licence can be made. A copy of such a study shall be attached with the application forms. Feasibility studies prepared for licencing purposes shall always include data on the following:

- a) Proposed annual production capacity
- b) Type of products
- c) Proposed plant site
- d) Names and addresses of project proponents.

5 Three copies of the application forms, obtained without charge from the Ministry, shall be duly filled and submitted directly to the Foreign Capital Investment Bureau, at the Ministry, or the branches of the Ministry in towns other than Riyadh.

6 Other documents to be attached with the application forms and the feasibility study, are:

- a) documentation as to the foreign firm's previous experience and activities in similar projects in and outside the Kingdom.

- b) a copy of the approval of the Board of Directors or the Owners of the foreign firm sanctioning the establishment of the proposed project in Saudi Arabia.
- c) a copy of the draft agreement between the local and foreign parties signed by both if possible.
- d) a copy of the home registration certificate of the foreign company.
- e) copies of machinery catalogues and quotation related to the project. The above documents are imperative to the consideration and evaluation of the application by the Bureau.

7 The Bureau shall transmit its evaluation report to the Foreign Capital Investment Committee which shall make the necessary decision.

8 If found acceptable, the Committee shall then make its recommendations to the Minister of Industry and Electricity for the final approval of the licence.

9 Following the Minister's approval, the Committee shall issue the Ministerial licencing decision.

B CONTRACTING, MAINTENANCE AND TECHNICAL SERVICES PROJECTS

1 Proponents shall fill the special application forms, obtained from the Ministry of Industry Electricity, and

submit them to the Foreign Capital Investment Bureau at the Ministry. The following documents are required to be attached:

- a) a copy of the agreement between the local and foreign parties (in joint ventures) signed by both if possible.
- b) copies of authenticated documents as to the most important projects, in the field applied for, executed by the foreign partner, giving their starting and completion dates.
- c) a copy of the home registration certificate of the foreign firms.
- d) a copy of the foreign firm's board of directors' approval of investment in the project applied for in the Kingdom of Saudi Arabia.
- e) a statement of the types and value of the most important machinery items and plant owned by the foreign firm outside the Kingdom.
- f) copies of catalogues and quotation related to the project applied for.
- g) an official document from the foreign company indicating the kind and value of facilities it shall render to the project.

- h) annual reports and budgets of the foreign firm for the last three years.
- i) if the project applied for is for the provision of maintenance facilities, it is required to submit a statement of the various machinery items and equipment to be installed in a complete workshop in the Kingdom.
- j) if the project applied for concerns the provision of transport services, a detailed economic feasibility study must be submitted.

2 The Bureau shall study such applications in the light of the foreign party's experience and capability and shall then transmit its recommendations to the Foreign Capital Investment Committee.

3 Following the positive recommendation of the Committee, the Bureau shall prepare the Ministerial decision, which shall be signed by the Minister approving the project licence.

4 The licencing decision shall then be issued by the Foreign Capital Investment Bureau.

REGULATIONS FOR COMPANIES

Formation, and operation of business firms and companies are governed by the Regulation for Companies promulgated by a Royal Decree in 1385/A.H.

Industrial establishments other than those which are sole proprietorships are registered with the Ministry of Commerce.

A business organisation may take one of the following forms:

- (i) Joint Liability Partnership
- (ii) Mixed Liability Partnership
- (iii) Mixed Liability Partnership by Shares
- (iv) Limited Liability Partnership
- (v) Company with Variable Capital
- (vi) Joint Stock Company
- (vii) Cooperative Company
- (viii) Foreign Company
- (ix) Joint Venture.

(i) JOINT LIABILITY PARTNERSHIP (SHARIKAT TADHAMUN)

A joint liability partnership is an association of two or more partners who are jointly and severally liable for the debts of the partnership to the extent of their entire assets.

(ii) MIXED LIABILITY PARTNERSHIP (SHARIKAT TAWSIYAH BASEETAH)

A mixed liability partnership shall consist of two categories of partners, one consisting of at least one general partner (Shareek Motadamen) who is liable for the debts of the partnership to the extent of his entire assets, and the

other category including at least one limited partner (Shareek Mossi) who is liable for the debts of the partnership only to the extent of his own contribution to the capital.

(iii) MIXED LIABILITY PARTNERSHIP BY SHARES (SHARIKAT TAWSIYAH BEL-AS-HUM)

A mixed liability partnership by shares is a partnership consisting of two groups: one group comprising at least one general partner who shall be liable for the debts of the partnership to the extent of his entire assets, and another group comprising at least four share partners who are liable for the debts of the partnership to the extent of their capital shares only and whose capital is not less than SR 100,000. The capital is divided into negotiable indivisible shares of equal value, the value of each share being not less than SR 50.

(iv) LIMITED LIABILITY PARTNERSHIP (SHARIKAT THAT MASSOULIYYAH MAHDOODAH)

A limited liability partnership is a partnership consisting of two or more partners who are liable for the debts of the partnership to the extent of their capital shares. The number of partners shall not be more than 50. The capital of the partnership shall not be less than SR 50,000 and shall be represented by indivisible shares of equal value. Such shares shall not be represented by negotiable securities.

(v) VARIABLE CAPITAL PARTNERSHIP (SHARIKAT THAT RAS-AL-MAL AL-QABIL LITTAGHAYYUR)

A variable capital partnership is defined as a partnership whose bye-laws provide that its capital may be increased by new payments from the original partners or by admission of new partners and can be reduced by the partners by reduction of their capital.

(vi) JOINT STOCK COMPANY (SHARIKAT AL-MOSSAHAMH)

The capital of a joint stock company shall be divided into negotiable shares of equal value and the shareholders shall be liable only to the extent of the value of their shares. In such companies the number of members shall not be less than five.

The capital of a joint stock company which offers its shares to the public for subscription shall not be less than SR 1,000,000. In other cases, the capital of the company shall not be less than SR 200,000. Each share of the company should be of a value not less than SR 50.

A joint stock company can be incorporated only by virtue of an authorization by Royal Decree. A company so registered shall be deemed to have Saudi nationality but this shall not necessarily debar it from rights as may be restricted to non-Saudis.

The application for authorisation, signed by at least 5

members, shall be recorded in the register kept for the purpose by the Department of Companies, Ministry of Commerce. The application shall state the manner of subscription of the capital, the number of shares reserved for the founders and the shares subscribed by each founder. With the application shall be annexed a copy of the memorandum of association and the bye-laws.

If the founders do not limit subscription of all capital to themselves, the balance of the capital must be offered to the public with 30 days (extension may be taken for another 30 days) of the publication of the Royal Decree. When the capital is offered to the public, subscription must be received through banks designated by the Minister of Commerce. The invitation to the public shall be in the form of a prospectus, the essential contents of which are prescribed under the regulation.

In case the capital includes contributions in kind or special privileges, the Department of Companies shall, at the request of the founders, appoint experts to ascertain the correct valuation. Every director is required to subscribe at least 200 shares of the company's stock which are to be set aside as a guarantee against directors liability.

Incorporation of the company is announced after the application is made (within 15 days of the subscribers' meeting) by the Minister of Commerce.

The applications for registration of the company shall be

made within 15 days of the announcement of incorporation. A company registered under the regulations for Companies should also be registered under the Regulations for Commercial Registration.

The bye-laws of incorporated companies shall be in accordance with the form given under Resolution No 583 of 1385 A.H. of the Council of Ministers. The form can be changed only by a decision of the Minister of Commerce.

Company bye-laws may provide for restriction on the negotiability of shares. Redeemable shares may also be issued by a company if the enterprise is of an exhaustible type or is based on temporary rights. However, shares may be redeemed only out of profits or free reserve fund. Existing shareholders have the first option to subscribe to new shares issued by the company. Bye-laws may impose restrictions on the number of votes carried by a large number of shares in limited hands.

Bye-laws provide for the issue of negotiable bonds meant for public subscription. These shall be through a prospectus, and subscription shall be received only through a bank designated by the Minister of Commerce. The directors must within 30 days of the closing date of subscription, submit to the Department of Companies a statement in the prescribed form. Bonds cannot be converted into shares unless so provided for in the terms of the issue.

Under the Regulations has been established a Commission

for the Settlement of Commercial Companies' Disputes, consisting of 3 members.

Auditors of a company are appointed at the regular meeting out of professional auditors licenced to operate in the Kingdom.

(vii) COOPERATIVE COMPANY (SHARIKAT TAAWONIYYA)

A joint stock company or a limited-liability company may be founded on a cooperative basis for the benefit of all partners and through their joint efforts if it aims at (1) reducing the cost price, purchase price or sale price of certain products or services (2) improving the quality of the products or the standards of the services the company supplies to the partners or consumers. The capital of the cooperative company shall be divided into registered shares which shall not be less than SR 50. All the shareholders in a cooperative company shall have equal rights.

(viii) FOREIGN COMPANIES (SHARIKT AJNABIYYA)

Foreign companies may, subject to the Foreign investments Code, set up branches, agencies or offices representing them or issue securities or offer the same for subscription or sale in the Kingdom by obtaining a licence from the Ministry of Commerce*.

(*) Royal Decree 11 of 1382 restricts appointment of agencies of foreign firms in Saudi Arabia to nationals and

Saudi Companies. The local agencies should be wholly national in terms of capital, constitution of the boards and maintained at the Ministry of Commerce and Industry in which all agencies have to be registered.

(ix) JOINT VENTURE (SHARIKAT MUHASSAH)

A joint venture is a company which remains anonymous to third parties, does not enjoy corporate status and is not subject to publication formalities. A third party shall have no resource except on the partner who did business with him. If the partners perform any act which reveals to a third party the existence of a company then as far as the third party is concerned the company will be considered as a de facto joint liability partnership.

MINING CODE:

In the case of industries using mineral resources including quarry materials, and proposing to extract their own raw materials, necessary concessions (excluding those for petroleum, natural gas, pearls, corals, and radio-active materials) have to be obtained under the revised Mining Code authorised by Royal Decree No M/21 of Jumad Al-Awal 20th, 1392 A.H. (1973). The Code is administered by the Ministry of Petroleum and Mineral Resources which receives applications under the Code.

Seven types of permits may be obtained.

- i) Reconnaissance permits
- ii) Exploration licences
- iii) Mining leases
- iv) Treatment plants and transportation licences
- v) Permits for small mines
- vi) Quarrying leases or permits
- vii) Materials permits

The reconnaissance permit is granted for an initial period not exceeding two years and capable for extension or renewal at the discretion of the Ministry. The exploration licence is issued for a maximum area of 10,000 square kilometers and a period not exceeding five years capable of renewal for a period not exceeding four years.

The holder of an exploration licence has the sole right to receive an exploitation concession if the mineral resources are proven during the validity of the exploration licence.

An exploitation licence entails surface and subsoil rights and hence a surface rental at a rate per square kilometer, fixed by the lease document at a lower limit of one thousand Riyals and a higher limit not exceeding ten thousand Riyals per square kilometer per year or fraction of a year. The area allowed by a mining lease should not exceed fifty square kilometers.

Rights in small mines (area not exceeding 100 hectars) shall be granted under a licence issued by the Minister. This is issued only to Saudi national for a period not exceeding

twenty years capable of renewal or extension for another period of twenty years.

Non-Metallic minerals, rocks and other stones used only as raw materials in processing plants are considered as essential raw materials for industrial plants. A lease for exploiting such materials is required and the ministry may vary the surface rentals in order to make an allowance for the extracted minerals of lower value.

The code provides, among other things, for use of modern techniques of production recognized by the mining industry, and for precautions against undue waste of natural resources. Also all equipment imported for the implementation of a licence issued under the mining code, is exempt from import and export duties. An income tax-holiday of five years is granted by the code to document holders, starting from the date of the sale of products or from the beginning of the fourth year since the issue of the lease, whichever occurs first. Unless the Ministry decides to treat a document holder on the basis of profit sharing, the document holder will pay income taxes after the end of the holiday, in accordance with income tax law in force.

Permits or concession for prospecting and production of petroleum are negotiable with the Ministry of Petroleum and Mineral Resources through PETROMIN which has been established to deal with, promote and participate in such concessions.

BANKING CONTROL CODE

Banking business in the Kingdom is regulated by the Saudi Arabian Monetary Agency (SAMA) under the Banking Control Code enforced by Royal Decree promulgated in 1386 A.H. Licences for starting business are issued by the Minister of Finance and National Economy.

To ensure the liquidity and solvency of banks, ratios of deposit liabilities to paid-up capital and reserves, and allocation of profits to build up reserves are regulated. Similarly, limits are placed on single lending accounts. The agency also maintains a statutory deposit from each bank currently at 15% of all deposits. There are also restrictions placed under the regulations on loans granted to business firms or companies in which the director of a bank is directly interested. Any constitutional change in the bank can be brought about only after obtaining the approval of SAMA.

TRADEMARKS

A code governing the registration of distinguishing marks (trade marks) was issued by Royal Decree as far back as 1358. The latest ammendment code issued on 23/6/1394 by Royal Degree No M/24, revised registration fees and the duration of protection period. A trade-mark may consist of letters, numbers, special drawings or sings which would distinguish the product bearing the mark from others. Restricted categories of distinguishing marks are named in

the code. The trademark is required to be registered in a Distinguishing Marks Register maintained by the Department of Companies in the Ministry of Commerce. The register is open to public inspection.

The application for registration should be made to the Registrar stating among other things, the mark to be registered with two photostat copies of the marks, copies of necessary documents, a list of goods on which the marks are to be placed giving the source and quality.

In case where an applicant is not the owner of the mark, application should be accompanied by legal proxy authorizing the applicant.

The Registrar on receiving the application and application fees, shall publish an announcement of mark in the official gazette, Um al-Qura. Any person may file an injection before the Board for Settlement of Commercial Disputes within six months of the announcement, after which in accordance with the direction of the board the mark shall be registered within one month of payment of the final registration fee. The registrar shall also issue a registration certificate.

The ownership rights of the distinguishing mark of one who has the mark constantly for 5 years, cannot be disputed unless it is established by a contestat that he had used it similarly for one year before its registration. Trade marks may be jointly owned by two or more persons.

The ownership of a distinguishing mark can be transferred or mortgaged only in agreement with its owner. However, such transfer or mortgage will be valid in relation to third parties only after the disposal had been recorded in the register provided for the purpose, and the relative fee paid.

A distinguishing mark, once registered, shall continue to be protected for 10 years, starting from the date of application for registration. It may be renewed for the same period, if a suitable application accompanied by the appropriate fee is made within 3 months before the expiry of the last year of the validity period and the prescribed fee is paid when the owner is called upon to do so.

Once a distinguishing mark is struck off the register, it will not be re-registered in the name of some other person for the same product before the expiry of 3 years.

There are certain registration fees for trade marks. Such information can be obtained from the Ministry.

A person forging, imitating or using forged or imitated mark or marks owned by others or selling goods bearing forged or imitated mark, for fraudulent purposes or to mislead the public shall be punishable by imprisonment up to one year and a fine from 10 - 100 Saudi Gold Pounds. A person who uses on commercial papers or otherwise marks without proper title thereto, showing that the mark has been registered by him, shall be punishable with imprisonment up to 6 months and a fine from 5 - 50 Saudi Gold Pounds,

if it is established that the intent was to mislead the public.

All disputes or contravention of the Regulation in relation to distinguishing marks shall be considered by the Board for Settlement of Commercial Disputes. An appeal against the action of the Registration Office shall lie with the Minister of Commerce.

WEIGHTS AND MEASURES

For the regulation of weights and measures, and control of commercial frauds, several Royal Decrees were issued in the past. Since 1385, (1965) the Kingdom has been following the internationally recognised metric system for area, weights, volumes and measures.

SASO

A Royal Decree was issued in 1392 (1972) for the establishment of the Saudi Arabian Standard Organisation (SASO). It has a Board of Directors headed by the Minister of Commerce.

The functions of the Organisation are, among other things, to lay down the rules for granting control certificates, and those for compliance with national standards.

SETTLEMENT OF COMMERCIAL DISPUTES

Establishment and conduct of commercial courts is regulated

by a Code authorized by a Royal Decree issued in 1350 (1930). The Court is appointed by H.M. the King and consists of two judges and a law consultant. The jurisdiction of the court extends to all commercial disputes including financial transactions. The court provides an interpreter to non-Arabic speaking contestants.

The regulations provide for appointment of arbitators by the disputing parties. Arbitration agreement should be notarised with a Notary Public and submitted to the court. The agreement should state the conditions of arbitration and whether the award would be considered final. No arbitrator could be withdrawn once the court has accepted the appointment.

A schedule of fees (only nominal) for various procedures including filing of cases before the court is provided in the Code.

APPENDIX 5

SPECIALISED FINANCIAL INSTITUTIONS

Since for large scale industrial undertakings substantial capital funds are necessary, the Government of Saudi Arabia has established a number of financial institutions to provide medium to long-term credits to both private and public sector projects within the Kingdom. In addition to these, a number of institutions have been set up either by the Government alone, or jointly with other countries to extend financial assistance to friendly and developing countries. A brief discussion is given below stating the organisations and functions of these institutions.

Investors may obtain short-to medium-term loans at commercial rates from various commercial banks in the Kingdom.

1. THE SAUDI ARABIAN AGRICULTURAL BANK

Date of Establishment	: By Royal Decree No 58 dated 3.12.1382 A.H.
Head Office	: Riyadh. The Bank may establish branches in other cities.
Administration	: Board of Directors.
Capital	: SR 789 million in 1875/76.
Objectives	: Provision of loans and credit

facilities required for the development and promotion of agriculture and related activities.

Loan Conditions

- : a. Loans, in cash or in kind, are provided to individuals, societies, companies and organizations which are primarily engaged in agriculture in Saudi Arabia. The amount of loan granted to a single party not exceed 10% of the total of the Bank's paid up capital and reserves.
- b. The Bank shall guarantee the payment of loans which are negotiated by the parties indicated in (a) with others provided that such loans are in agreement with the objects of and conditions set by the Bank.

Address

: Omar bin Al-Khattab Street,
Riyadh, Tel: 23934, 23911.

II. THE GENERAL INVESTMENT FUND

Date of Establishment

: By Royal Decree No M/24,
dated 25.6.1391 A.H.

Head Office

: Riyadh.

- Administration : Board of Directors with the Minister of Finance and National Economy as Chairman.
- Capital : SR 1000 million, - initially, increased to SR 7400 million in 1976.
- Objectives : 1. Financing of investments in commercial production projects.
2. The Fund may buy shares in newly established companies and can resell such shares at their nominal price and under easy terms to individuals of low-bracket income if these companies prove to be profitable.
- Conditions of Financing : 1. The productive projects to be financed shall pertain to the government or government associated institutions for industrial financing and other public organizations.
2. It shall be possible to execute these projects independently or by collaboration between the aforesaid agencies and private establishments.

3. The financial assistance shall be in the form of loans or guarantees.
4. In special cases, the financial assistance may be in the form of direct allocation of funds.
5. The fund shall not consider the applications for financial assistance unless complete economic feasibility studies of the projects are attached thereto as well as a statement of their cost, period of execution and proposed manner of financing.
6. Drawings at any time from the approved total allocations for any project shall not exceed the actual needs at that time.

Address : The Ministry of Finance and
National Economy, Airport
Road, Riyadh, Tel: 27000
Extn 202.

III. REAL ESTATE DEVELOPMENT FUND

Head Office : Riyadh.

- Administration : A committee to be nominated by H.M. the Prime Minister.
- Capital of the Fund : SR 250 million - initially. Increased to SR 3000 million.
- Objectives : The granting of loans to individuals or organisations for setting up real estate projects for private or commercial use.
- Conditions of Financing : 1. To provide medium or long-term loans to individual Saudi national with medium or low-bracket income to cover the construction costs of private housing. Such loans shall not exceed 70% of construction costs.
2. To provide medium - or long-term loans to the Saudis, bodies corporate or real, for constructing residential blocks for commercial use or to be used as hotels. The amount of such loans shall not exceed 50% of the construction costs.
3. The fund may make agreements with Saudi establishments to

construct residential units for the employees of these establishments by providing loans not exceeding 50% of the construction costs of the residential units.

4. The Fund may participate in town development and improvement in agreement with the municipalities, through possession of the agreed area, paying the required compensations to the owners and replanning the same in order to sell it. The return therefrom shall be added to the capital of the Fund.

Address : Al-Matar Stree - Behind Zahrat
Al-Sharq Hotel, Riyadh,
Tel: 33500.

IV. THE SAUDI INDUSTRIAL DEVELOPMENT FUND

Date of Establishment : By Royal Decree No M/3,
dated 26.2.1394 A.H. (20.3.1974).

Head Office : Riyadh. To conduct its business
the Fund may establish branches
or appoint agents in other cities.

- Administration : A Board of Directors - with a General Manager and a Deputy General Manager.
- Capital : Initially SR 500 million.
Subsequently increased to SR 3000 million. In June 1975, a fund of SR 750 million was made available for financing the electrification programme of the country and in November 1975 this fund was increased to SR 1250 million.
- Objectives : The provision of medium-or long-term interest free loans to new existing industrial establishments for the purpose of expanding their activities or replacing and modernizing their equipment. (At present there is a service charge of 2% on outstanding loans).
- Loaned Conditions : 1. Applications for loans shall not be considered unless feasibility studies are attached thereto. The Fund shall make a complete evaluation of the economic, financial and technical aspects of the project as to ascertain its conformity

with the Government's
industrial policy.

2. The Fund shall obtain sufficient financial securities from the proponents of industrial projects financed by the Fund, which shall be commensurate with the amount of the financial assistance provided by the Fund.
3. The Fund shall control the implementation of these projects, and shall act as their consultant in solving problems facing them.
4. The Fund loans shall not be used as a working capital.
5. The maximum amount of loan shall be up to 50% of the total funds required for financing the project or its development.
6. The loan granted by the Fund shall be redeemed within a maximum period of 15 years.

Address

: Washm St., P.O. Box: 4143,
Riyadh, Tel: 33755.

V. THE CONTRACTORS' FINANCING PROGRAMME

- Date of Establishment : By Decision of Council of Ministers No 47 dated 25.1.1394 A.H.
- Administration : By a special committee.
- Capital : SR 50 million, liable to increase.
- Objectives : 1. Granting interest-free loans to Saudi contractors for financing direct purchase of the basic materials they need.
2. Providing the necessary credit facilities in the form of short or medium-term loans.
- Financing Conditions : 1. The contractor shall be a Saudi national or an establishment entirely owned by Saudis and conduct its main activities inside the Kingdom and be classified according to the Contractors' Classification Regulations.
2. The contractor shall submit detailed statement about his financial position, his previous works and work under execution.

3. The loans, direct or in the form of credit facilities, shall be paid back within a maximum period of five years.
4. The loans shall be used for purchasing the machines and equipment necessary for execution of structural, architectural, electrical and mechanical contracting works, as well as the basic materials required for such works, particularly cement, iron and timber.

VI. THE ISLAMIC DEVELOPMENT BANK

Date of Establishment : By decision of the Second Conference of the Ministers of Finance of the Islamic States, held in the month of Rajab 1394 A.H. in Jeddah. The Bank is an independent international organization.

Head Office : Jeddah. The Bank may establish offices or branches in any other localities.

Administration : Board of Governors. It has an elected President and a

Vice President.

Capital

- : Two thousand million Islamic Dinars, divided into 200,000 shares. Capital is liable to increase.

Objectives

- : Supporting economic development and social progress of the peoples of the Islamic states and communities, collectively and individually, according to the provisions of the Islamic Law (Shari'a) through:
 1. Participating in the capital of productive projects and establishments in the member states.
 2. Investing in projects for economic and social structure in the member states.
 3. Granting loans for financing the productive projects and programmes in both public and private sectors in the members states.
 4. Establishing, managing and supervising Special Funds for specified purposes, such as Fund for Assisting Islamic Communities in the Non-member States.

5. Accepting deposits and attracting funds by suitable means.
6. Assisting promotion of foreign trade among the member states, particularly production goods.
7. Investing its idle funds in suitable ways.
8. Providing technical assistance and training facilities to those engaged in the developing field.
9. Carrying out researches required for conducting economic, financial and banking activities in the Islamic states, as well as cooperating with all similar international organisations and institutions in accordance with the provisions of the Islamic Law (Sharia).

VII. THE ARAB INVESTMENT COMPANY

Date of Establishment : 26.6.1394 A.H. (1974).
Head Office : Riyadh. Two branch offices
were opened in both Cairo and

Khartoum. The Company may establish other branches, offices or agencies inside and outside the Kingdom.

- Member States : The Kingdom of Saudi Arabia, Kuwait, The Sudan Democratic Republic, The Arab Republic of Egypt, Qatar, Abu Dhabi, Bahrain, Syria, Jordan, Iraq, Lybia, Tunisia, Morocco, Oman, and Arab Republic of Yemen. Applications from other Arab countries shall be considered by the General Assembly.
- Administration : Board of Directors representing the member countries.
- Capital : \$ 255 million (increased to \$ 300 million).
- Objectives : Investing Arabian funds for developing the resources and carrying out productive projects in the fields of agriculture, industry, commerce, communications, according to sound economic and commercial principles leading to the overall development to the Arab economy.
- Address : Head Office

Airport Road, Riyadh,
Tel: 67686, 67685, 69960/1.
P.O. Box: 4009, Telex: 20011.
Cairo Branch
The Arab Investment Company
P.O. Box: 139, Cairo,
Tel: 908983.
Khartoum Branch
The Arab Investment Company
P.O. Box: 2242, Khartoum
Tel: 75591/2/4.

VIII. SAUDI INVESTMENT BANK

The Saudi Investment Bank was established by a Royal Decree in June 1976 with the objective to provide medium and long-term loans to business and individuals, particularly for financing new projects in agriculture, industry and other economic fields.

The capital of the Bank will be SR 30 million, one half of which will be paid-up initially. Thirty six per cent of the capital has been earmarked for public subscription and the remaining 64 per cent for the Saudi and foreign institutions. The Saudi institutions are the National Commercial Bank, the Riyadh Bank, Al-Jazira Bank and the General Organisation for Social Insurance, while the foreign institutions, contributing 35 per cent of the capital, are the Chase Manhattan Overseas Banking Corporation, the Industrial Bank of Japan, J. Henry Schroder Wagg and Co.

Ltd. of the U.K., and the Commerce Bank A.G. of West Germany.

The Bank will be managed for the initial five years by the Chase Manhattan Banking Corporation which will hold 20% of the capital. The Bank will have a Board of Directors comprised of ten members including seven members representing the Saudi share-holders, two for the Chase, and one for the other foreign institutions.

IX. SAUDI INTERNATIONAL BANK

Established in August, 1975 with Pounds sterling 25 million, the Saudi International Bank will have its headquarters in London. The Bank will participate in commercial and merchant banking, and in cooperation with the shareholder banks, will place emphasis on the development of business relationship with companies trading and investing in the Middle East, especially in Saudi Arabia.

The Saudi Arabian Monetary Agency (SAMA) is the principal Shareholder (50%), while the other shareholders are the National Commercial Bank, and the Riyadh Bank of Saudi Arabia with 2.5% each, and the remaining 45% is owned by six major international banks, viz, Morgan Guarantee Trust Company of New York (20%), and the Union Bank of Switzerland, each with 5 per cent.

X. THE GENERAL ORGANISATION FOR SOCIAL INSURANCE

This Organisation was established by a Royal Decree in

1389 A.H. (1969), with headquarters in Riyadh.

The Organisation is administered by a Board of Directors consisting of 11 members - of which four represent the Government, three from among the insured, three from the employers and the Director General of the Organisation. The General Organisation for Social Insurance invests its funds in profitable public limited companies. Thus, it has recently become a good source of industrial finance.

APPENDIX 6

INFRASTRUCTURE AND RELATED CONDITIONS

Realising that rapid industrialisation is possible only when all-round infrastructural facilities are available at low costs, the Government of Saudi Arabia has allocated in conformity with the Kingdom's requirements, as much as 46 per cent of the total Second Plan outlay of SR 498 billion for the development of social and physical infrastructure. In spite of serious efforts made by the Government a number of bottlenecks have developed in the supply of infrastructural facilities mainly due to large volume of economic activities. Consequently the costs of some productive services to industries have recently gone up considerably. It is expected that such costs will come down within a reasonable period of time due to various corrective measures undertaken by the Government. This section highlights the present conditions of infrastructure and related matters which are likely to affect industrial investment in the Kingdom.

LAND

Land is an important factor of production as it is needed for factory buildings, offices and housing for the workforce. In the recent past the land prices have gone up considerably. They vary from one area to another

depending on their distance from the major urban area, availability of utilities like road connection, water, electricity, etc. To give an example, a plot of land outside the city limit of Riyadh but having access to various utilities would cost from SR 400 to SR 800 per square meter.

The Government has undertaken to develop large industrial estates, described below where industrial plots are rented to investors at a nominal fee of SR 0.08 per square meter per year.

INDUSTRIAL ESTATES

The Government has established three industrial estates located in Jeddah, Riyadh and Dammam. Other estates in Mecca, Al-Ahsa, and Al Qassim are meanwhile being developed. There would be additional industrial estates much larger than the existing ones in Riyadh, Jeddah and Dammam (vide Table 6.1).

The industrial estates are administered by the Ministry of Industry and Electricity, and are planned to provide most of the essential facilities required by the industrial activities. Such facilities include roads, water and electricity supplies, sewage systems, telephones, banks, post offices, police and fire stations, mosques, canteens and health centres. Every estate is divided into plots of various sizes to cater for the requirements of different factories.

Applications in prescribed forms for allotment of land for factories in the industrial estates should be submitted to the Ministry of Industry and Electricity. The applications are examined by a Review Committee consisting of members from the ministry and the ISDC. There is no fee for making the application.

TABLE 1

Industrial Estates

Riyadh (First Estate)

	Area (sq. meters)	Number of Plots
Stage I	271,946	
Stage II	179,082	
Total	451,029	114

Riyadh (Second Estate) (Under development)

Stage I	2,250,000	240
Total Area	21,000,000	

Jeddah (First Estate)

Stage I	498,000	
Stage II	1,044,000	
Total	1,542,000	107

Jeddah (Second Estate)

21,000,000	Not decided
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Damman (First Estate)

Stage I	570,000	
Stage II	1,480,000	
Stage III	1,200,000	
Total	3,250,000	82

Dammam (Second Estate)

Mecca	21,000,000	Not decided
Al-Ahsa	860,000	Not decided
	1,500,000	Not decided
Al-Qassim	Not decided	Not decided

Priority is given to:

- (i) industries proposed in the Development Plan.
- (ii) branches of existing industries in the same line of manufacture.
- (iii) industries financed solely by local capital (while industries with foreign capital are welcome).
- (iv) industries using newer technologies.
- (v) industries complementary to other units; and
- (vi) industries, the feasibilities of which have been established on the basis of proper studies.

Plots of land are also given for shifting existing factories in order to achieve expansion, more efficient production and to reduce overcrowding.

TESTING LABORATORIES

Through the technical services obtained from the T.N.O. of the Netherlands, and the cooperation of the good offices of the good offices of the Food and Agricultural Organization (F.A.O.) the then Ministry of Commerce and Industry was able to establish two testing laboratories in Jeddah and Dammam. These laboratories now belong to the Ministry of Commerce and have the technical facilities of testing of

various imported products including food products. The Ministry has established a central laboratory in Riyadh.

The Industrial Studies and Development Centre has signed the agreement for equipping its newly established Central Industrial Testing Laboratory in its new headquarters complex in Riyadh. When finished this laboratory shall have the facilities for testing various industrial materials and products including chemical, food and metallic samples.

The Central Laboratory maintained by the Ministry of Health in Riyadh extends the facility for testing certain industrial products referred to it by other Ministries.

The Ministry of Housing and Public Works has established its testing laboratory under its public Works Division.

Petromin, Ministry of Agriculture, Directorate General of Mineral Resources and ARAMCO maintain testing laboratories in their respective areas.

The ISDC has prepared a Manual of Testing Laboratories in the Kingdom.

CONSTRUCTION COSTS

During the course of the past couple of years the construction costs have gone up significantly mainly because the supply of men and materials for construction could not keep pace with the rapidly rising demand for them in the Kingdom.

It is variously estimated that the construction labour force does not exceed half of what is actually required at the present moment, although the situation is rapidly improving with the influx of large numbers of expatriate workers.

The important source of labour supply, especially in the construction sector is traditionally the Yemenis, but recently a large number of workers are coming from Pakistan, Egypt, Jordan, Syria, Somalia, India and Korea.

WAGE RATES

Average wage rate including payroll burdens varies from one kind of worker to another as shown in Table 2. Daily work is based on 8 hours shift for six days per week. Overtime for hours exceeding 8 hours is 1.5 times the base rate.

Estimated Daily Wage Rates for Various Workers in Major
Cities of the Kingdom

(Average for 1975/76)

<u>Type</u>	<u>Daily Wages</u> (SR)
Unskilled labour	40
Carpenter	80
Equipment Operator	65
Plasterer	80
Painter	60
Tile Layer	50
Plumber	60
Electrician	60
Mason	50

CONSTRUCTION MATERIALS

The local production of various construction materials has increased significantly. There is domestic production of cement, cement blocs and tiles, marble, aluminium doors and windows, and pipes. However, the domestic market is still heavily dependent on imports for various construction materials including reinforcing steel bars.

CEMENT

There are three cement plants in Riyadh, Jeddah and Dammam producing a total of about 1,125,000 tons in 1974/75. All these three existing plants are expanding their individual capacities by 3000 tons per day. New plants have been licenced to be established in Al-Qassim, Yanbu and the Southern Region, each with a daily capacity of 3000 tons. A ministerial decision has also been issued approving the establishment of two more plants as joint ventures - one with Bahrain and the other with Kuwait. Until these plants are in operation, the balance of the country's cement requirements shall be covered by imports.

Maximum retail prices per bag of 50 kg of cement have been fixed by the Government in the three main towns of the Kingdom, as follows:

	Riyadh	Jeddah	Dammam
	(SR)	(SR)	(SR)
Locally produced cement	11.50	11.50	11.50
Imported cement	24.00	20.00	20.00

However, in Riyadh, the imported cement is currently available at around SR 15 per bag.

STEEL REINFORCEMENT BARS

The only local producing unit for this material is the Rolling Mill in Jeddah. Its annual production is around 15,000 tons. The Kingdom has issued three licences to the private sector, and SABIC is considering a project to produce reinforcing and merchant bars in the Kingdom. At present, the domestic demand for rebars, estimated at about 400,000 tons per year is met from imports. The current retail price per ton of reinforcing bars is about SR 1000 per ton for diameter sizes of between 10 - 24 mm.

CEMENT BLOCKS

A large number of plants have already been licenced to produce cement blocks in the Kingdom. The Government controlled price is SR 1650 per 1000 blocks measuring 20 X 20 X 40 cm.

HOUSING

As a consequence of many socio-economic development programmes adopted by the Government, the Kingdom has been recently experiencing a great shortage in all kinds of housing for residential purposes, schools, hospitals, clinics as well as for commercial and industrial uses. To meet all such housing demand, the Second Development Plan has allocated an estimated capital investment of SR 92,000 million for building construction during 1975-80. This is about 18.5% of the total Plan allocation of expenditures for all kinds of projects.

During the First Plan period (1970 - 75), about 75,000 housing units were built in various urban areas. It is estimated that during the Second Plan period (1975 - 80) the urban housing need is about 338,000 units. Against this requirement, the Plan projected a total construction of about 270,000 houses of which the private sector is expected to build 122,000 units, while the public sector would construct the rest.

The private sector building construction is aided by generous loans granted by the Real Estate Development Fund. In 1974, the Government established a Fund to extend credit to the Saudi construction companies.

RENTAL AND CONSTRUCTION COSTS

Housing in the major cities in the Kingdom has become

very costly mainly because the demand is far in excess of supply. Land prices in the prime residential areas have gone up significantly; currently the prices would range between SR 1500 to 2000 per square meter, say, in Riyadh.

Building construction costs (RCC) range from SR 1500 to SR 2000 per square meter of floor space. Prefabricated house construction costs are somewhat lower than the conventional RCC construction. Prefabricated steel hanger type factory buildings and warehouses can be constructed at a cost ranging from SR 500 - SR 1000 per square meter.

Rental prices for living accommodation are on average SR 30,000 per year for a two bedroom apartment with a kitchenette and a bathroom. A 3-bedroom independent house would cost from SR 75,000 to SR 125,000 per year.

Building construction activities are progressing at rapid rate. It is expected that within a reasonable period of time of 2 - 3 years, house rents will come down to a lower level. The Government has introduced a law in 1976 forbidding the Government agencies, and the companies with a contract exceeding SR 100 million to rent any building within the city limit.

CAMP COSTS

Camp costs (at construction sites) vary widely depending

on the location and the quality of facilities. Unskilled workers are normally housed in tents while the craftsmen are given airconditioned huts near the construction sites. There are contractors who provide both camps and messing. A figure of SR 40 per worker is typical for camp and messing at a construction site.

BANK GUARANTEES FOR CONSTRUCTION CONTRACT

The bidder for a contract must present with his bid a bank guarantee ("bid bond") equal to 1% of the total amount of the bid which is valid for three months from the date of the opening of the bid. Upon signing of the contract, the bid bond is returned and replaced by a performance bond.

It will be required from the company which wins the tender to produce a final bank guarantee equal to 5% of the total value of the contract award to him; such bank guarantee needed to ensure prestated performance, is to be valid for three months after the final delivery date. Its purpose is to compensate the Government for the costs that would be incurred should the original contractor fail to complete the contract and another contractor is to be brought in.

The Government is usually willing to advance the contractor 20% of the value of the contract in order to finance any start-up costs. To protect itself against failure or fraud, the Government would need a local bank guarantee to be submitted by the contractor for the amount of the advance. This guarantee gets reduced over the course of

the contract at the rate of 20% of the monthly progress certificates as the contractor earns back the advance. Thus the guarantee gets reduced to zero at the final progress payment.

Usually over the course of the contract, the Government is willing to pay up to 90% of each progress certificate (amount) submitted, while retaining 10% of the amount until the preliminary turnover. However, if the contractor presents a local bank guarantee for 10% of the progress certificate (amount), he can be paid the entire 100% of the certified amount.

UTILITIES

The electric power supply which is in the private sector has been improving significantly during the past decade. The Table 3 indicates the distribution voltage and frequency, while Table 4 shows the installed capacity and power consumption in major towns of the Kingdom. It is reported that these urban utilities represent about one-third of the total capacity of power generating plants in the Kingdom. Other sources of power supply are industrial companies and Government agencies generating electricity for their own use.

TABLE 3

Voltage and Frequency in Major
Cities (1393)

	Supply and Distribution Voltage (high)	KV	Working Voltage (low)	Frequency
Riyadh	33/13.8/4.16	KV	380/220 V & 220/127 V	60 c/s
Jeddah	110/13.8	KV	380/220 V & 220/127 V	60 c/s
Dhahran	66/33/13.8/4.16	KV	220/127 V	60 c/s
Mecca	11	KV	380/220 V	50 c/s
Taif	11/3.3	KV	380/220 V	50 c/s
Al-Ahsa	11/3.3	KV	380/220 V	50 c/s
Buraidah	11	KV	380/220 V	50 c/s

As mentioned elsewhere, the Government has recently set up an Electricity Corporation to develop a stable and increasing supply of power throughout the Kingdom.

At present, the Government provides a subsidy to the electric companies to ensure them a reasonable profit while the consumers get their power at a cheap rate. The household consumers pay SR 0.07 and the industrial users pay SR 0.05 per Kwh throughout the whole Kingdom.

Electricity Consumption in (1395) 1975

	Installed Capacity (KW)	No of Subscribers	Sales (000 Kwh)
Riyadh	200,500	79,791	421,817
Jeddah	163,000	56,060	532,365
Mecca, Taif	51,000	64,520	182,900
DEPCO*	188,000	40,829	464,200
Medina	20,575	22,600	54,100
Onaiza and Suburbs	5,100	4,200	7,700
Buraidh & Suburbs	5,000	8,407	14,000
Khamis Mushait	4,800	3,900	17,270

* Dhaharan Electric Co

INDUSTRIAL FUELS

The prices of fuel oil and gasoline in Saudi Arabia are naturally of the lowest levels in the world. Table 5 gives the prices for different petroleum products in various town in the Kingdom.

WATER SUPPLY AND RATES

To cope with the problem of water scarcity in the Kingdom, projects of water supply have received a high priority in the development programmes. The principal source of water is wells. The Government has continuing programme to provide potable water from wells as well as desalination plants. The present rate for water from town supply is SR 0.25 per cubic meter.

TRANSPORT AND COMMUNICATION

As transportation and communications are essential supporting elements for the development of the other sectors of the economy, their expansion is a major objective of the development programmes undertaken by the Government.

TOWNS	REGULAR GASOLINE	TYPE OF PREMIUM GASOLINE	FUEL DIESEL OIL	KEROSENE OIL
Riyadh	10.5	13.5	4.5	8
Kharj	10.5	13.5	4.5	8
Jeddah	10.5	13.5	4.5	8
Jizan	18	21	11	15.5
Mecca	10.5	13.5	4.5	8
Taif	11.5	14.5	5.5	9
Turaif	-	13.5	4.5	8
Afif	14.5	17.5	8.5	12
Medina	12.5	15.5	6.5	10
Tabuk	16.5	19.5	9.5	13
Dammam/Khobar	10.5	13.5	4.5	8
Hofuf	10.5	13.5	4.5	8
Buraidah and Onaizah	12.5	15.5	6.5	10
Najran	19	21	12	16.5
Abha and Khamis Mushait	16.5	19.5	9.5	14
Assafaniyah	10.5	13.5	4.5	8

ROADS

At the end of the First Plan period (1394/95) the Kingdom had a total of about 12,000 kilometers of paved roads. The second Plan proposes to complete construction of 13,066 kilometers of main, secondary, and paved feeder roads and about 10,250 kilometers of earth-surface rural roads. In addition, the Government has a considerable roads maintenance programme for 16,791 kilometers.

During the recent past, the transportation costs for raw materials and finished goods by roads have increased considerably. The Government has therefore attempted to bring the costs under control by fixing the rates of road transportation between different towns as shown in Table 6. For example, to transport one ton of commodity from Jeddah to Riyadh would cost, according to the rate fixed by the Government, about SR 95. However, the rates are mostly settled between the seller and buyer of the transportation services through mutual negotiations.

ROAD TRANSPORTATION RATES BETWEEN THE DIFFERENT TOWNS IN SAUDI ARABIA (SR per ton)

From	Riyadh	Jeddah	Medina	Mecca	Taif	Dammam	Dhahran	Hofuf	Tabuk	Turaif	Buraiddh	Al-Kharj	Sulail
Riyadh	-	95	89	89	81	42	41	30	149	156	44	8	50
Jeddah	95	-	38	6	14	138	136	125	100	251	87	103	46
Medina	89	38	-	40	48	131	130	119	62	245	49	97	39
Mecca	89	6	40	-	8	131	130	119	102	245	82	97	39
Taif	81	14	48	8	-	123	122	111	110	237	74	89	31
Dammam	42	138	131	131	123	-	1	14	191	114	86	50	92
Dhahran	41	136	130	130	122	1	-	13	190	115	85	48	91
Hofuf	30	125	119	119	111	14	13	-	178	128	73	37	80
Tabuk	149	100	62	102	110	191	190	178	-	305	108	156	9
Turaif	156	251	245	245	237	114	115	128	305	-	200	164	6
Buraiddah	44	87	49	82	74	86	85	73	108	200	-	51	4
Al-Kharj	8	103	97	97	89	50	48	37	156	164	51	-	3
Sulail	50	146	139	139	131	92	91	80	199	206	94	43	-

Source: Ministry of Interior

Note: Rate calculated at SR 0.09 per kilometer per ton.

PORTS

The major ports of Jeddah and Dammam are the main entry points to the Kingdom for finished consumer goods, raw materials and machinery. The limited handling capacities of these two main ports created serious bottlenecks in the recent past causing long waiting periods for ships to berth. Consequently, port congestions added to the inflationary pressure, and delayed many development projects.

The Government has, therefore, undertaken a considerable development programme to improve the port facilities. Recently, a special Port Authority has been created to give special attention to this important sector of the economy. By the beginning of 1977, the waiting period for the ships at Dammam and Jeddah has been eliminated.

Among the immediate measures, the Government recruited additional labour, and provided facilities for docking of ships using containers and roll-on, roll-off (RO-RO) system of cargo shipment and handling.

For the long run, the Second Development Plan envisages the construction of 54 piers at major ports of which 30 are for the Arabian Gulf ports (16 for Dammam, and 14 for Jubail) and 24 for the Red Sea ports (20 for Jeddah, 2 for each of Yanbu and Jizan). Other plans include improvements of the entry-exit channels, installation of marine guidance device, and construction of dry dock facilities. It is

planned to install self-propelled floating crane and container-handling equipment. At Jubail, one commercial and one industrial port are being established to cater for the needs of the Jubail industrial complex under development. Feasibility studies have been completed for the development of a number of small ports on the Red Sea coast.

CIVIL AVIATION

The air transportation network consists of three main international and seventeen domestic airports. The Saudi Arabian Airlines (SAUDIA), a Government owned organization is a member of International Air Transport Association (I.A.T.A.) and Arab Air Carriers Organization (A.A.C.O.). It has now a jet fleet of sixteen Boeing aircrafts and two wide-bodied L-1011 Tri Stars. Firm orders have been placed for six Lockheed L-1011 Tri Starts, 3 Boeing 707s and 10 Boeing 737s during 1976 - 1980. SAUDIA also has acquired four new light aircraft to meet the increased demand for charter flights.

From January, 1975 Saudia started the operation of all-freighter service between the Kingdom and Europe. The local and international cargo rates and the fares for chartered flights can be obtained from SAUDIA offices.

RAILWAYS

The only railway system operating in the Kingdom is a 582-kilometer line connecting Riyadh with Dammam via

Al-Kharj and Hofuf. It runs a passenger service all days of the week. Plans to expand the capacity of the line by the purchase of additional luxury cars and faster trains have recently been finished. Shortly a daily fast train shall start running between the two towns with only one stop.

Studies for extending this line first to Jeddah and Mecca via Taif have finished. At a later stage Medina shall be also connected to this line.

Railway freight is based on two sets of tariffs. The general tariff applies to wagon loads with a minimum of 45 tons per wagon. Some illustrative rates are given below:

Table 7

Railway Freight Rates

From Dammam Port

For 45 tons per wagon

To	Hofuf	SR 348.75
	Al Kharj Town	SR 569.25
	Riyadh	SR 660.00

From Riyadh

To	Dammam	SR 480.00
	Al Kharj Town	SR 148.00
	Hofuf	SR 372.00

The Special tariff applies to loads of less than full wagon loads. The minimum charge is SR 4.69 for 50 kilograms. Three classifications are adopted for the kinds of goods carried. The following is the rate per 100 kilograms in the three classes:

Classification I	SR 8
Classification II	SR 6
Classification III	SR 4

Claims for defective deliveries due to the negligence of the staff of the Railroad Organisation are admitted within one year from the date of delivery of goods.

COMMUNICATIONS

The basic objective of the plan for the development of telecommunications, is to provide a system of local, intra-kingdom and international services. These are to meet the demand, both in quantity and quality, implied by the overall social and economic goals of the national Development Plan. It is projected that by 1980 about 5 people will have a telephone in the larger cities. Telex services is also expected to grow significantly over the Second Plan period.

The postal services made considerable progress during the first plan period. The number of post offices operating in the Kingdom was 228 in 1394 (1974). They handled about 31.6 million internal and about 59.5 million international

letters in 1394. The Second Plan proposes to provide prompt postal services to all parts of the Kingdom by developing new work methods and upgrading mail handling equipment.

CURRENT TELEPHONE EXCHANGE TARIFF FROM RIYADH PER 3 MINUTE CALLS

GROUP	COUNTRIES	RATE SR/3 MINUTES
1	Bahrain	12
2	Qatar	15
3	Kuwait	16.80
4	Abu Dhabi, Fujaira, Dubai, Muscat, Sharaq, Turaif, Ajman, Umul Quwain, Ras Al Khaima, Al-Ain	19.80
5	Jordon	18
6	Egypt, Iran	21
7	Sudan, Tunis, Somalia, Lebanon, Pakistan, Syria, Libya, Algiers, Morocco, Yemen, Iraq and Muritania	25.20
8	India, Afghanistan and Bangladesh	36.00
9	Austria, Belgium, France, Germany, Holland, Ireland, Italy, Luxemburg, Norway, Spain, Sri Lanka, Sweden, Switzerland, Turkey, U.K.	42.00
10	U.S.A. (person to person)	45.00
	(station to station)	36.00
	Canada (except Fridays)	45.00
	(Fridays)	36.00
11	China (Taiwan), Kenya, Uganda, Tanzania	48.00
12	Japan, Hong Kong, Austria, South Korea, Ethiopia	51.00
13	Finland	60.00
14	South America, Mali, Malaysis, New Zealand, Indonesia	66.00

15	Greece, Spain (person to person)	52.00
	(station to station)	39.00

Table 9

CURRENT TELEX RATES FROM RIYADH

<u>GROUP</u>	<u>COUNTRIES</u>	<u>SR/3 min</u>	<u>SR/1 minute</u>
1	Bahrain, Abu Dhabi, Al Fujaira	12	3
2	Qatar, Muscat, Dubai, Ras		
	Al Khaima, Al Sharqa, Kuwait	15	3
3	S Yemen, N Yemen, Pakistan, Iraq	27	9
4	Austria, Belgium, France, Denmark, Finland, Germany, Greece, Italy, Ireland, Luxembourg, Malta, Holland, Norway, Spain, Sweden, Switzerland, Turkey, U.K., Morocco, Tunis, Iran, Jordan, Lebanon, Algiers, Libya, Syria, Somalia, Japan	42	14
5	U.S.A., U.A.R., Cameron, Kenya, Ethiopia, Ghana, Mauritania, Nigeria, Mali, Uganda, Zambia, Indonesia, Korea, Manila, Thailand, Canada, Australia, New Zealand, Mexico, India, All South America, Sudan, Singapore, Bangladesh, Sri Lanka, Afghanistan	54	18
6	Alaska	63	21
7	Malaysia	69	23

APPENDIX 7

MANPOWER DEVELOPMENT AND LABOUR AFFAIRS

SUPPLY-DEMAND GAP

A big gap is going to develop between the supply of and demand for manpower in various skill groups during the Second Plan period. Table shows the gaps by occupational groups, and the sources of supply as projected by the Plan.

As can be seen in Table 1 there is presently a big pool of nationals in the category of unskilled workers, farmers and Bedouim. Given appropriate training, a large number of them can be developed to supply the need for semi-skilled and skilled jobs.

This Appendix discusses the various programmes being adopted by the Government for the development of human resources in the Kingdom.

Table 1

Estimated Manpower Distribution in Various Occupational Groups

(Thousand)

Occupational Groups	1395 (1975)		1400 (1980)	
	Saudi	Non-Saudi	Saudi	Non-Saudi
Managers and Officials	7.4	6.3	8.7	12.4
Professional	48.4	15.7	52.9	23.5
Technicians and sub-Professional	25.0	31.4	33.4	81.3
Clerical	67.5	31.4	99.6	121.8
Sales	82.3	47.1	97.2	112.6
Service	105.2	47.1	134.5	145.2
Operatives	40.0	25.1	57.1	51.4
Skilled workers	70.1	47.1	93.5	101.9
Semi-skilled	170.0	62.8	265.0	162.5
Sub Total	615.9	314.0	841.9	812.6
Unskilled	244.0	-	296.4	-
Farmers	311.2	-	281.0	-
Bedouin	114.9	-	98.7	-
Sub Total	670.1	-	1,518.0	-
Grand Total	1,286.0	314.0	2,359.9	812.6

Source: Second Development Plan

Table 2 STATISTICAL SUMMARY OF EDUCATION (PRESENT CONDITIONS AND PROJECTIONS)

Education Programme	Student Enrollment		Graduates		Teachers		Schools	
	1394	1399	1394	1399	1394	1399	1394	1399
School Education								
Elementary	620,000	1041,000	49,800	97,500	30,800	50,500	2,899	4,467
Intermediate	120,400	230,000	25,200	53,200	7,300	15,500	557	991
Secondary	35,400	72,500	7,000	17,000	2,155	4,861	141	231
Sub Total	775,800	1343,500	82,000	167,700	40,255	70,861	3,595	5,689
Teacher Training	15,690	27,500	4,547	7,914	1,056	1,954	46	60
Technical and Vocational	3,685	14,405	857	3,469	365	1,365	16	37
Teacher Training (Post Secondary Level)	271	10,325	102	3,233	61	819	2	20
Audit Literacy Programme	84,400	520,000	-	54,200	6,300	31,000	1,114	3,327
University	10,872	24,757	1,167	3,842	1,758	4,497	-	-
Women's Teacher Training	1,009	7,200	74	1,351	101	693	-	-
Islamic University (Graduate Level)	3,446	11,024	1,703	7,158	2,088	6,102	-	-

Source: Second Development Plan

Note: Some large figures have been rounded to nearest hundred

EDUCATIONAL DEVELOPMENT PROGRAMME

In order to meet the manpower needs, the Second Plan has greatly emphasised the development of the human resources of the Kingdom which would account for about 16% of total Plan outlay. Educational programmes are being expanded and diversified, while a greater number of scholarships for higher education and specialised training abroad are offered for Saudi nationals.

Schools and higher education are administered by various supervising authorities of which the Ministry of Education (for boys) and Girls. Education Administration (for girls) are the most important ones.

Higher education is the responsibility of the newly-founded Ministry for Higher Education. Several universities are now functioning, expanding and diversifying. These include:

- Riyadh University
- King Abdul Aziz University (Jeddah with a branch in Mecca)
- University of Petroleum and Minerals (Dhahran)
- King Faysal University (Dammam)
- Islamic University (Medina)
- Imam Muhammad Ibn Saud Islamic Universtiy (Riyadh)

The Directorate General for Girls Education, in addition to supervising the development of girls' education at all

levels, also looks after the management of the two women's colleges. A Higher Institute of Social Works has been established for women in 1976.

Table 2 gives a general statistical summary of the existing conditions with respect to student enrollment, number of graduates, teachers and schools in 1394/95 (1974/75) and their projected growth by the end of the Second Plan period (1399/1499). The highlights of the projections given in Table 2 are that student enrollment at the school level would almost double while at the university level it would increase by about 140% over the Plan period.

The Kingdom has been giving great emphasis to education abroad, for which the state grants generous scholarships. Presently, about 2500 students are studying abroad at various degree levels as shown below:

Degree Levels	Students
Undergraduate	1603
Master Degree	362
PhD	581
Total	2546

MANPOWER TRAINING

Local training of manpower is handled by a number of government agencies. In addition, the private sector is encouraged by certain incentives to train its personnel, and is also required by the labour laws to make possible the training of its workers and to improve their skills.

Training abroad is another facility encouraged by the Government as discussed above. Beside this there is a continuous flow of Saudi national attending short courses, seminars and other workshops organized by foreign universities, learned societies, professional and business associations and United Nations organisations.

PROFESSIONAL TRAINING

The Institute of Public Administration (IPA) was established in 1380 (1960) with the following objectives:

- (i) Contribute to the development of the manpower needed by the civil service as a whole.
- (ii) Provide training in industrial management and finance for the development of high level management in the industrial and financial sectors.
- (iii) Provide training at the preservice and inservice levels in areas of public administration.

- (iv) Provide government agencies with consulting services to solve organizational and administrative problems.

Though its main centre in Riyadh and its branches in Jeddah and Dammam, the IPA has helped a great deal in promoting the capabilities of government employees.

TECHNICAL EDUCATION

Technical education is being provided in the Kingdom at various levels as explained below:

Secondary Industrial Training: There are four secondary industrial training schools operating in Riyadh, Jeddah, Hofuf and Medina.

Secondary Commercial Training: A secondary-level programme of commercial education was introduced in 1390/91 (1970/71).

Vocational Training: The vocational training programme is under the jurisdiction of the Ministry of Labour and Social Affairs, and operates independently of the formal education system. The emphasis is on occupational training through intensified courses to provide basic skills for those entering the labour force.

The training system started in 1388 (1963) when the first centre was opened in Riyadh. Up to the end of 1396 (1976) a total number of 4371 trainees graduated in various skill groups, as shown in Table 3.

Table 3

Graduates from Vocational Training Centres in the Kingdom
up to January 1976

<u>Trades</u>	<u>Total</u>
Automotive Mechanics	730
Electrical	672
Building	488
Carpentry	594
Mechanics (General)	424
Sanitary Engineering	338
Welding	389
Sheet Metal	174
Painting (Coating)	78
Printing	135
Office Machines	58
Radio and T.V.	41
Refrigeration and Air Conditioning	132
Tailoring	46
Hair-Dressing	38
Upholstering	20
Bookbinding	14
Total	4371

Source: Vocational Training Administration

Private Sector Training: The labour law enacted in 1389 (1969) includes mandatory provisions for training responsibilities of employers, establishes penalties for infractions, and provides for a system of inspection. This is expected to provide on-the-job training to the workforce.

SALARY-WAGE LEVELS

In the government ministries, the salaries and wages are uniform for a given qualification and experience. These are determined under a set of rules and regulations.

In the private sector, however, salaries and wages vary significantly from one profession or skill to another, or for the same profession or skill they vary from one company to another, depending on its size or location.

Salary and wage levels for some categories of works, such as construction, transportation and the like have risen substantially during the past few years due to a large increase in the volume of activities in these fields. Between 1974 and 1976, salary and wage increases were about 150 per cent, specially for skilled workers. The cost of labour to a company has gone up further additionally because it is now required to provide housing for its employees.

In Table 4, the ranges in salary or wages are shown.

LABOUR AFFAIRS

LABOUR CONTRACT

The Labour Law has achieved an articulate balance between the two parties in a labour contract. Rights and obligations of each party are elaborated so that good will and cooperation is accepted, serious disputes or harmful situations are infrequent and the means exist in the Labour Law to settle all cases harmoniously*.

A workman who is discharged for no valid reason may apply for a stay of execution of such discharge. The application shall be submitted to the director of the appropriate labour office who shall refer it to the appropriate Commission whose decision in this respect is final.

If the Commission finds that the workman's discharge was without a valid reason, it may order his reinstatement with payment of his wage arrears, or it may order payment of his statutory entitlements as well as any compensation due for damages he has sustained.

The Labour Law has given the workman the right to leave his work with advance notice and without prejudice to his right to an award for his period of service, and indemnity for any prejudice that he may have sustained.

* Note: This is a government organisation quote.

Table 4 AVERAGE SALARY AND WAGE LEVELS IN VARIOUS CATEGORIES IN THE PRIVATE SECTOR

1976/77

Occupational Category	Function	SR per month*
Manager	Overall supervision, coordination and management	10,000 - 15,000
Assistant Managers	Deputy to managers	8,000 - 10,000
Professional/Technical	Advisory	7,000 - 12,000
Technical/Engineer	Specific technical work	6,000 - 10,000
Technical and Sub Professional	Specific job	4,000 - 7,000
Skilled workers	Specific job	2,000 - 3,500
Semi-Skilled	Can do a job with some supervision	1,500 - 2,000
Unskilled	Manual work	1,200 - 1,500

Note: The cost of housing and overseas tickets will be in addition to salaries and wages for expatriates mentioned in this Table.

* £1.00 = SR 6.50 (1976) £1.00 = SR 7.90 (1980)

SERVICE AWARD

In accordance with such provisions, and where the terms of a labour contract concluded for a specified period comes to an end, or where the employer cancels a contract of unspecified period, the employer is required to pay to the workman an award for the period of his service, to be computed on the basis of half a month's pay for each of the first five years and one month's pay for each of the subsequent years. The last rate of pay is taken as a basis for the computation of the award.

Furthermore, the workman is entitled to the service award in the following cases:

- a. If he is called to military service.
- b. If a female worker resigns because of marriage or childbirth.
- c. If the workman is leaving the work as a result of a force majeure beyond his control.

If the workman resigns, after having given prior notice to his employer, he will be entitled to percentages that range between one third and full amount, or the award in accordance with his service period.

PROTECTION OF WAGES

The labour law has defined wages in terms broad enough to cover all that is given to the workman in consideration of his work, whether it is in cash or in kind, including all increases and allowances of any kind, including the high cost of living allowance and the family allowance.

Due to its vital role in securing a decent life for the workman and his family, the labour law has required that wages be paid during working hours and at the place of work as follows:

- a. Wages of daily-rated workmen are to be paid once a week.
- b. Wages of monthly-rated workmen are to be paid once a month.

In order to protect the workman against financial problem that might adversely affect the stability of his life and his family, the labour law has prohibited, except in certain cases, the deduction of any amount from the workman's wages.

Employer Responsibilities:

These are defined as: advising the labour office of vacancies within ten days, furnishing other information required to the labour office, providing normal working facilities and

maintaining high standards of sanitation, lighting, safety etc. Employment cards must also be issued if the number of workers exceed ten. The prescribed regulations must be prominently displayed. Adequate records regarding workmen and work conditions must be kept. Annual returns must be filed at the end of each year.

Prior to commencement of operations the employer must communicate to the labour office information on the company including nature of operation, type and quantity of power, number of workers, names of managers and responsible representatives etc . . . and any subsequent changes.

Employment of aliens: Employment permits are issued to expatriates on the approval of the ministry of labour and social affairs on application made to the Ministry of Interior and these permits are subject to normal residence regulations.

It should be established that expatriates have the necessary qualifications for the job and that qualified nationals needed for the job are not available. The employment permits are issued subject to employment contracts and sponsorship of the employer. In 1976, an amendment was introduced which forbid an alien worker to resign in order to work for another Saudi employer without first leaving the country for two years.

In no establishment should the proportion of Saudi workers

fall below 75% of total employment and that of their wage bill below 51% of the total subject only to temporary exemptions granted by the Minister of labour and social affairs owing to the unavailability of technical and competent talent. Non-Saudi employees are to be reduced gradually and a record kept of the replacement. This last rule is the most difficult to keep in Saudi Arabia today due to the unavailability of sufficient Saudi labour of the required skills.

WORK CLASSIFICATION - PENALTIES AND REWARDS

The Labour Law requires that employers establish and maintain a set of rules, duly approved by the Ministry of Labour, for the purpose of regulating the work, penalties and rewards.

The set of rules includes classification of the workmen according to their occupational categories, work periods, hours and official holidays; rules governing attendance, tardiness, entry into and exit from the places of work, inspection, or any other details commensurate with the nature of work in question and, with the workmen's rights, which go far beyond those of other countries.

The set rules covering penalties and rewards, approved by the Ministry of Labour, and modified in accordance with right and justice, require that the employer may not abuse his right to impose penalties; or impose a penalty on a workman for an offence not listed in the disciplinary rules;

also the workman may not be accused of any offence that was discovered more than fifteen days later nor may a penalty be imposed upon him more than thirty days after the offense is proven; that no penalty may be imposed upon a workman except after hearing his remarks and examining his defence; that the workman shall have the right to object before the appropriate commission; and that fines imposed on workmen shall be maintained in a special fund.

PROTECTION AND MEDICAL CARE

The labour law requires that every employer shall take the necessary precautions for the protection of workmen against hazards and diseases resulting from the work and the machinery used, and that the employer may not charge the workmen or withhold from their wages any amount in return for providing such protection.

In addition, the labour law requires that every employer shall have his establishment kept clean and in a sanitary condition; shall have the work rooms ventilated; shall have necessary precautions taken to protect workmen from injuries resulting from any gas, dust, smoke or any other waste which may be generated in the course of the work; he shall have his establishment adequately lighted and adequately provided with potable water; and shall accept full responsibility for incidents and accidents which may cause injury to his workmen and to persons other than his workmen, who enter the places of work.

Though medical insurance is free and available to all citizens, the labour law has stressed that additional services be provided for workmen. Accordingly the employer shall provide first-aid services in accordance with the standards to be determined by the Minister of Labour in collaboration with the Minister of Health.

If the number of his workmen exceeds fifty, he shall employ a nurse who shall be familiar with first-aid services. The employer shall also assign a physician to examine and treat the workmen at the places to be provided by the employer for this purpose, and the employer shall provide them with the medicines necessary for their treatment.

The afore-mentioned services shall be free of charge whether during working hours or otherwise. If in the cases mentioned above, the number of workmen exceeds a hundred, the employer shall, in addition, provide them with all other means of treatment in cases requiring treatment by specialists.

SOCIAL SERVICES

The standard of social services provided to workmen has important effects on the quantity and quality of labour produced and on the workmen's role as vital elements in the accomplishment of economic and social development. As development is a major objective envisaged by the Saudi Government, the labour law has provided for an elaborate scheme of social services.

In accordance with this scheme, every employer who employs fifty workmen or more must set up for his workmen a savings and thrift plan to be approved by the Ministry of Labour, provided that the workmen's participation in such plan shall be voluntary. He shall provide his workmen, at his expense, suitable rest and recreational facilities in accordance with the specifications to be determined by the Ministry of Labour.

If he employs five hundred or more workmen, the Ministry of Labour, after taking into consideration the nature and conditions of the work areas and the number of the workmen therein, may decide that the employer shall carry out at his expense all or part of the following:

- a. Provide parks and athletic fields annexed to the place of work, as well as actual libraries for the workmen.
- b. Provide shops for the sale of food, clothes, and other necessary commodities at moderate prices.
- c. Make the necessary medical arrangement for the proper protection of the health of the workmen and for the comprehensive treatment of legal dependants.
- d. Provide schools for educating the workman's children, if no adequate schools are available in the area, and provide mosques in the place of work.
- e. Set up programmes to combat illiteracy among the workmen.

Moreover, the labour law has made it mandatory that every employer shall provide means of transport to carry his workmen from their places of residence or from a given point of assembly to the places of work, and to return them daily, if the places of work are not reached by ordinary regular means of transport.

As for workmen who perform in places far removed from inhabited areas, and especially those working in mines, quarries and centres of oil exploration, extraction or exploitation, the employer is obliged to provide them with adequate living quarters, three meals a day, as well as medical, social, and cultural services, all in accordance with conditions and specifications determined by the Ministry of Labour.

WORKING HOURS

The Labour Law has established appropriate rules that regulate daily working hours, working days per week, as well as vacations and leaves.

In accordance with these rules, a workman shall not be employed for more than eight actual working hours in any one day, with the exception of the month of Ramadan, when actual working hours shall not exceed six hours a day. The maximum number of working hours may be changed by decision of the Minister of Labour.

Additional working hours are strictly prohibited except

in emergencies, in certain limited cases, and upon the permission of the Labour Offices.

When additional work hours are allowed, the number of actual working hours shall not exceed ten a day. The employer shall pay the workman for additional work hours an additional wage equivalent to the workman's normal wage plus fifty percent.

Table 4

Private Sector Imports Financed by Commercial Banks

(SR millions)

			Jan- June	Jan- June
	1977	1978	1978	1979
Foodstuffs	3,035	4,490	2,281	2,443
Textiles and Clothing	1,944	2,246	882	1,228
Building materials	2,624	2,847	1,357	1,789
Motor vehicles	3,900	4,519	2,582	2,079
Machinery and appliances	5,992	7,094	3,695	3,296
All other goods	7,572	9,008	4,392	5,242
Total	25,066	30,204	15,188	16,076

The labour laws provide one day's holiday each week with full pay to all workers.

The leaves and vacations, as provided for by the labour law, are as follows:

- a. The workman who has completed one year in the service of the employer shall be entitled to an annual vacation of fifteen days with full wages payable in advance. This vacation shall be increased to 21 days when the workman completes ten continuous years in the service of the employer.
- b. The workman may not forego his annual vacation.
- c. The workman is entitled to a sick leave with full pay for the first thirty days, and with three-quarter pay for the 60 days in any one year.
- d. The workman is entitled to days off with full pay on the holidays, provided that such holidays do not exceed ten days a year.
- e. The workman is entitled to a three-day leave for his marriage, and to a one-day leave with full pay in the event a child is born to him and in the event of the death of his spouse or any of his ascendants or descendants.

SETTLEMENT OF LABOUR DISPUTES

The labour law has put great emphasis on settling labour offices by amicable and mutual agreement. To create conditions favourable for cooperation and fraternal relations between employers and workmen, Saudi labour legislation has provided for a set of rules and procedures designed to anticipate and settle labour disputes.

However, where amicable settlement of disputes seems unlikely, a lawsuit to this effect is referred to the appropriate judicial commissions. Labour judiciary, is a constituent part of Saudi judiciary and is characterized by:

1. Independence and authority in settlement of labour disputes: member of the Commission for Settlement of Disputes are appointed by the Council of Ministers, and are independent, judicially immune and experienced in legal matters.
2. Free accessibility: labour judiciary, as well as Saudi judiciary in general, is free of charge on all levels. Judicial fees and legal expenses are not required.
3. Levels of litigation: minimization of litigation procedures would result in efficient and prompt decisions aimed at securing the workman his right to wages as well as his other rights. The 1969 labour

law has accounted for such minimization by limiting litigation procedures, in regard to settlement of labour disputes, to two levels:

- A. The Primary Commission for Settlement of Disputes, are entitled to render final decision on:
 - a. Labour disputes, the value of which does not exceed three thousand riyals.
 - b. Disputes relating to the stay of execution in a decision to terminate workmen.
 - c. Disputes relating to the imposition of fines or requests for exemption from such fines.
 - B. The Supreme Commissions for Settlement of Disputes: These commissions can exercise exclusive jurisdiction to render final and definitive decisions in all disputes referred to them on appeal.
4. Urgency: contrary to practices common in pleading and in as far as labour disputes can exert adverse effects on workmen, the labour law has provided that definite dates for hearing cases and for rendering decisions be set by the Chairman of Commissions.
 5. Multimembership: the labour law has required that every Primary Commission be composed of three members, with their chairman being a holder of a degree in

Islamic Law (Shari'ah), and that every Supreme Commission be composed of five members. Complete impartiality in conducting investigations and rendering decision in labour disputes best served by such multi-membership of Commissions.

SOCIAL INSURANCE

The Social Insurance Regulations were provided under the same Royal Decree in 1389. They cover compensation in cases of work injuries and occupational diseases, disability, old age and death. They also cover compensation for temporary disability arising from sickness, maternity, or unemployment as well as other forms of social security.

A General Organisation for Social Insurance has been set up under these Regulations.

The scheme of social insurance applies to all workmen of industrial establishments, excluding craftsmen working in their own houses. For purposes of pension, expatriates working for one year or less are also excluded.

Employers are required to pay 8 per cent of the emoluments (salaries and benefits) of workmen against pension benefits (the employees' contribution being 5 per cent is deducted from the salaries). In addition they are also required to pay two per cent of the emoluments of workmen engaged in hazardous jobs. Payment shall be made within 15 days following the month due, along with the appropriate statements.

Penalty payments are levied for delays.

The regulations provide for different rates of compensation payable to the employees in cases of their absence, for short or long term, from work due to work injuries or occupational diseases. Provisions have also been made for adequate medical care and facilities. Similarly, the regulations make detailed provisions for pension payments to workmen completing 60 years of age, or to family members in case of death of the worker.

Penalties are provided in the regulations for various violations. The Organisation shall issue certification of all liabilities cleared when an establishment requires this for obtaining licences.

UPDATE: THIRD PLAN ON MANPOWER

The following is an extract from the limited circulation

Third Plan Report released in 1981.

THE LABOUR FORCE, EMPLOYMENT, AND PRODUCTIVITY CHANGE.

The policy area with the most far reaching quantitative and qualitative changes in the Third Plan period is that relating to manpower and employment. The projections in this section highlight the complexity both of the technical and economic relationships concerned and of the administrative arrangements which will be necessary to ensure successful implementation. There will be continuous review of the whole subject of manpower and employment in case it proves necessary to re-evaluate the policies.

Civilian employment is summarized in Table 1, indicating that it will increase from 2.47 million in 1399/1400 to 2.63 million by 1404/05.

Underlying these estimates are projections concerning the following aspects of manpower and employment: growth of the Saudi Labor force; Labor supply and demand; employment structure; and productivity. The following is a detailed review of the individual aspects.

1. Labor Force

1.1 The Growth of the Saudi Labor Force. The proportion of Saudi males (12 years of age and above) participating

Table 1

PROJECTED CIVILIAN EMPLOYMENT IN SAUDI ARABIA 1399/1400 to 1404/05

<u>Nationality/Sex</u>	<u>Civilian Employment</u>		<u>Annual Growth Rate</u>	
	<u>1399/1400</u>	<u>1404/05</u> (Thousands)	<u>Net Change</u>	<u>1399/00 To 1404/05</u> (Percent)
Saudi men	1,308.4	1,437.4	129.0	1.9
Non-Saudi men	1,014.9	1,023.9	9.0	0.2
Subtotal men	2,323.3	2,461.3	138.0	1.2
Saudi women	103.0	120.0	17.0	3.1
Non-Saudi women	44.9	44.9	-	-
Subtotal women	147.9	164.9	17.0	2.2
Subtotal Saudis	1,411.4	1,557.4	146.0	1.9
Subtotal: Non-Saudis	1,059.8	1,068.8	9.0	0.2
Total	2,471.2	2,626.2	155.0	1.2

Table 2

MANPOWER SUPPLY AND DEMAND, 1400-1405

(Thousands)

New civilian demand for labor

Producing sectors (excluding agriculture & construction)	78.0
Services sector (including Government)	222.0
Oil sector	10.0
Total	<u>310.0</u>

Manpower supply for new jobs:

Saudis	236.0
Non-Saudis (skilled)	<u>74.0</u>
Total	<u>310.0</u>

in the labor force will continue to register a slight decline, from 65.3% to 64.1% over the five year period. This is essentially the direct result of the expansion of educational and training programs. This "schooling factor" will influence, in particular, the participation rate of the 12 - 19 age group. The decline of the participation rate among this age group is the cost of investment in society's future development.

On the other hand, there will be little change in the overall participation rates of Saudi women. Following the growth in the educational system, there will be an expectation of more educated women finding opportunities in mainly urban employment. However, the numerical impact of this increase will be offset by a decrease in the number of female farm workers, especially in the younger age groups, because of the increased schooling factor. During the Third Plan period the average participation rates for working Saudi women will therefore remain at approximately 6% of the total.

1.2 Labor Supply and Demand. The projected increase in the size of the civilian labor force over the Third Plan period is 155,000 representing an annual growth rate of 1.2%.

Numerically, this increase corresponds to the difference between new civilian employment opportunities (310,000) and the estimated number of people leaving agriculture (70,000) and construction (85,000). Because of the limitations on the growth of expatriate workers, the non-Saudi segment of

the labor force will only increase by 9,000 qualified personnel. This, too, is a net balance, comprising 74,000 for new jobs and 65,000 leaving the Kingdom mainly on account of redundancies in construction. At the same time the net increase in the indigenous work force for civilian employment will be 146,000.

2. Employment

2.1 The changes in civilian employment during the Third Plan, and a comparison of the growth rates between the Second and Third Plan, are shown in Tables 3 and 4. Table 3 also compares the percentage distribution of employment by economic activity in 1399/1400 with the projections for 1404/05. Against an employment increase of 725,000 during the Second Plan, the projected net growth in the Third Plan period will be only 155,000, representing a decline in the average annual growth rate of employment from 7.2% in the Second Plan to 1.2% during the Third Plan.

2.2 Employment in the non-oil private sector is estimated to increase by a net total of 45,000, at a rate of 0.4% annually; while the scope for public sector (civilian) employment growth is estimated at 100,000 over the next five years. However, that increase will not be automatic and, as mentioned elsewhere, government employment will be reviewed in detail by the end of the second year of the Third Development Plan.

TABLE : 3

CHANGES IN CIVILIAN EMPLOYMENT IN THE THIRD PLAN

(Estimated employment in 1399/1400 and in 1404/05 by economy activity)

<u>Economic Activity</u>	<u>Employment In:</u>		<u>Percent Change</u>	<u>Percent Distribution</u>	
	<u>1399/1400</u>	<u>1404/05</u>	<u>1399/00-1404/05</u>	<u>1399/00</u>	<u>1404/05</u>
	<u>(In Thousands)</u>				
<u>Producing Sectors:</u>					
Agriculture	598.8	528.8	(11.7)	24.2	20.1
Other mining	7.3	9.8	34.2	0.3	0.4
Other manufacturing	104.2	164.2	57.6	4.2	6.3
Utilities	31.5	47.0	49.2	1.3	1.8
Construction	330.1	245.1	(25.7)	13.4	9.3
Subtotal:	1,071.9	994.9	(7.2)	43.4	37.9
<u>Services Sectors:</u>					
Trade	310.6	339.6	9.3	12.6	12.9
Transport	214.6	274.6	28.0	8.7	10.5
Finance	34.8	44.8	28.7	1.4	1.7
Other services	482.3	505.3	4.8	19.5	19.2
Government ⁽¹⁾	321.0 ⁽²⁾	421.0 ⁽²⁾	31.2	13.0	16.0
Subtotal:	1,363.3	1,585.3	16.3	55.2	60.3
<u>Total non-oil economy</u>	2,435.2	2,580.2	6.0	98.6	98.2
<u>Oil sector</u>	36.0	46.0	27.8	1.4	1.8
<u>Total</u>	2,471.2	2,626.2	6.3	100.0	100.0

(1) Excludes non-civilian employment.

(2) This government figure includes an estimated 49.6 thousand daily wage workers, not classified as civil servants.

TABLE : 4

CHANGES IN CIVILIAN EMPLOYMENT IN THE SECOND AND THIRD PLAN PERIODS

(Comparison by economic activity)

<u>Economic Activity</u>	<u>Employment Increase</u>		<u>Annual Growth Rate</u>	
	<u>2nd Plan</u>	<u>3rd Plan</u>	<u>2nd Plan</u>	<u>3rd Plan</u>
		<u>(Thousands)</u>		<u>(Percent)</u>
<u>Producing Sectors</u>				
Agriculture	(96.2)	(70.0)	(2.94)	(2.46)
Other mining	3.9	2.5	16.51	6.07
Other manufacturing	29.8	60.0	6.97	9.52
Utilities	15.4	15.5	14.37	8.33
Construction	157.8	(85.0)	13.89	(5.78)
Subtotal	110.7	(77.0)	2.20	(1.48)
<u>Service Sectors</u>				
Trade	157.0	29.0	15.12	1.80
Transport	100.1	60.0	13.39	5.05
Finance	21.7	10.0	21.58	5.18
Other services	252.3	23.0	15.96	0.94
Government ⁽¹⁾	74.3	100.0	5.41	5.57
Subtotal:	605.4	222.0	- 12.46	3.06
<u>Total non-oil economy</u>	716.1	145.0	7.21	1.16
<u>Oil sector</u>	8.6	10.0	5.61	5.02
<u>Total</u>	724.7	155.0	7.19	1.22

(1) Excludes non-civilian employment.

2.2 Changes in the rate of growth of occupations in the two Plan periods are compared in Table 5. In view of the envisaged sectoral growth pattern of the Third Plan, and of the required higher levels of productivity, there will have to be larger proportional increase in the higher skill groups, including both professional and manual workers.

3. Productivity

3.1 It is axiomatic for the Kingdom that its labor force, comprising over 65% of the male and 5% of the female population of working age, should achieve progressively higher levels of productivity (the ratio of "value-added" to employment). Higher productivity is not only a requirement that follows naturally from the Kingdom's ability to equip the working population with the most modern tools for any kind of occupation, as well as its ability to educate people in the necessary skills, it is also the pre-condition for the non-oil economy's sustained expansion, including non-inflationary income growth from employment.

3.2 The practical significance of rising levels of productivity is illustrated in Table 3-12. It shows the savings in manpower through the growth in productivity by comparing estimates for non-oil GDP and productivity at the end of the First, Second and Third Plan periods, respectively.

3.3 This table reveals that without an increase in productivity in the five years to 1399/1400, the necessary increase in employment would have been about 1.7 million ($3.48 - 1.72$) and not 710,000 ($2.43 - 1.72$). Similarly, the envisaged productivity increase in the Third Plan by 1404/05 will save the economy more than 700,000 people.

3.4 Despite the similarities in the effects of productivity growth for saving manpower, there is an important difference between the Second and Third Plans in respect of the source of productivity growth. In the Second Plan the bulk of the productivity gain was the combined result of two types of employment shifts: one being migration from low productivity agriculture, and the other being the flow of the new entrants to the work force joining the high productivity sectors, especially construction. Both such shifts produced the same net effect an increase in the average productivity of a group of sectors as well as in the non-oil economy as a whole-which was achieved by means of labor movements only, and before any positive change in the level of productivity in any of the sectors concerned. Gains of this type (which can only relate to a group of sectors rather than to a single sector) are nevertheless well known and characteristic of developing countries. Their contribution to GDP is usually also an important element in GDP growth. Although these employment shifts might well continue within the Kingdom (for example the release of labor from the trade and transport

sectors), they are essentially temporary phenomena in the development process. This significance for the Third Plan is, therefore, projected to be minimal; accordingly, productivity growth is expected to be based on capital and skill-intensive improvements and developments within individual sectors.

3.5 Thus, the Third Plan is expected to see growth in sectoral productivity of between 4% and 5% per year, which would represent a doubling of the conventional type of productivity growth relative to the Second Plan. The gains will come from the following sectors: agriculture (where GDP growth will continue against the background of outmigration); manufacturing (on account of high productivity projects financed by SIDF); energy and water (reflecting the wake of large-scale capital-intensive developments). A relatively low rate of productivity increase is likely to come from construction, due to the fact that it will be the larger (foreign) firms that will withdraw from the construction market rather than the local contractors operating on a smaller scale. In contrast, the higher productivity estimates for the "trade" sector are based on the expectation that, against similar competitive pressure, this sector will be more effective in its utilization of both capital and labor.

Table 5

ESTIMATED EMPLOYMENT IN 1399/1400 AND IN 1404/05
BY OCCUPATIONAL GROUPS

Major Occupational Groups	<u>1399/1400</u>		<u>1404/05</u>	
	Employment (Thousands)	Percent Distribution	Employment (Thousands)	Percent Distribution
Professional (1)	240.4	9.73	270.8	10.31
Clerical workers	231.7	9.38	266.8	10.16
Salesmen and laborers (2)	1,076.9	43.57	1,184.9	45.12
Farmers and fishermen	622.2	25.18	558.0	21.25
Service workers	300.0	12.14	345.7	13.16
Total	2,471.2	100.00	2,626.2	100.00

(1) This category includes professional (technical, managerial) and administrative workers.

(2) This category includes salesmen, craftsmen, operators and laborers.

Table 6

GDP PRODUCTIVITY IN THE NON-OIL ECONOMY

<u>Year</u>	<u>GDP⁽¹⁾</u> <u>(SR billion)</u>	<u>Productivity per</u> <u>person employed⁽¹⁾</u> <u>(SR thousand)</u>	<u>Manpower required (millions) to</u> <u>produce GDP at productivity levels</u> <u>of selected years</u>	<u>1394/95</u>	<u>1399/1400</u>	<u>1404/05</u>
1394/05	66.77	38.8		1.72 ⁽²⁾		
1399/00	134.97	55.5		3.48	2.43 ⁽²⁾	
1404/05	182.23	70.6		4.70	3.29	2.58 ⁽²⁾

(1) All values in 1399/1400 prices.

(2) Estimated level of employment in the year concerned.

APPENDIX 8

TAX SYSTEM

The Kingdom of Saudi Arabia has a very liberal tax system. Not only are the taxes paid by an individual or a company very light, they are also few.

ZAKAT

The Zakat (Islamic direct tax on property and income) is a levy paid annually by Saudi citizens and companies. A Royal Decree issued in 1370 provides for the collection of Zakat in accordance with the provisions of the Sharia (the Islamic law). A ministerial decision issued in the same year by the Minister of Finance sets forth the procedure to be followed.

The assessee liable to pay Zakat and engaged in commercial or industrial activities are required to keep regular accounting books approved by a commercial court, or by a public notary in areas where there are no commercial courts. An assessment on an estimate basis is made for those who do not maintain proper accounts.

The rate of Zakat is a flat 2.5 per cent of the assessable amount. The amount on which Zakat is to be paid, is equivalent to the assessee's total capital resources not

invested in fixed assets. The resources include capital, retained earnings, reserves not created for special liabilities and net profits. An example is given below to clarify the calculation procedure.

ZAKAT PAYABLE BY SAUDI COMPANY (X)

Capital Resources:

Paid-up capital		SR 1,000,000
Total Reserves	SR 500,000	
Less: Reserve for		
Provident Fund	100,000	400,000
Total Revenues of the year	2000,000	
Less: all costs of the year	1800,000	200,000
Less: current book values of fixed assets:		1,600,000
(Original value of Fixed Assets	1500,000	
Less depreciation to date)	300,000	1,200,000
		400,000
Less: carry forward of past year's		100,000
Net assessable financial resources		300,000
Zakat at 2.5 per cent		7,500

Assessment of the various components of costs, retained profits and capital are subject to interpretations in accordance with the Sharia and Royal Decree and the ministerial decision referred to above.

According to a new Decree, only 1.25 per cent (i.e. half the Zakat) is to be paid to the Zakat and Incomes Department. The other half (1.25 per cent) is to be distributed by the assessee to needy people he personally knows or spent for other charitable purposes.

PERSONAL INCOME TAX

Presently, there is no tax on personal income in Saudi Arabia.

TAX ON BUSINESS INCOME

A company, under the tax regulations, means a company or a partnership having material gain as the basic object. The taxable incomes of companies include:

- (a) profits of a foreign company;
- (b) shares of non-Saudi shareholders in the profits of Saudi companies; and
- (c) total share of non-Saudi sleeping partners in the net profits of partnership firms.

All legitimate business expenses and costs including business losses and depreciation are deductible in computing net profits. Any reasonable method of depreciation may be adopted by the company but the same must be adhered to from year to year. Capital gains are included in the

profits of the company.

The following tax rates, on a slab basis, are now in force

Profit Level	Rate of Tax
SR 100,000 and under	25 per cent
SR 100,001 to SR 500,000	35 per cent
SR 500,001 to SR 1,000,000	40 per cent
Over SR 1,000,000	45 per cent

For companies engaged in the production of petroleum and hydrocarbons in the Kingdom, income tax is charged at different rates.

For companies engaged in the production of petroleum and hydrocarbons in the Kingdom, income tax is charged at different rates.

Every company is required to submit a financial statement on the official form and to pay the tax not later than the 15th day of the third month of the year following the financial year. Penalties similar to those on employers mentioned earlier, are payable by companies which delay payment of income tax.

Companies formed under the provisions of the Foreign Capital Investments Regulations with participation of Saudi capital of not less than 25 per cent are exempted from payment of income tax for five years from the commencement of commercial

production.

Tax-payers, individuals or companies, when served with a notice of additional tax payable have the right of pleading before the Preliminary Committee which is headed by the amir (Governor) of the district or his deputy. Decisions of the Preliminary Committee are subject to appeal to the Committee of Appeal set up under the chairmanship of the Minister of Finance and National Economy, or a person so delegated by him. The Preliminary Committee is required to take decisions within 15 days of the date of the pleading and the Committee of Appeal within one month from the date of the appeal.

CUSTOMS DUTIES

Originally customs duties were imposed on a number of commodities on revenue considerations mainly. But due to the substantial increase in oil revenues, the original purpose of imposing customs duties has lost its significance. At present these taxes have become more significant as instruments of industrial and economic policy, since by manipulating customs duties local production of manufactures can be encouraged or discouraged as desired.

Based on the above-mentioned policy consideration, and in addition to the objective of providing relief to the domestic consumers of imported products the prices of which have been rising rapidly since 1970, the Government has made a downward revision of the customs duties. With effect from

the 26th Rajab, 1392 (14th August, 1974), the salient features of customs tariff in Saudi Arabia are as follows:

- (i) Commodities imported under Chapters 2 and 3 (Brussels Tariff Nomenclature) will be exempted from duties. As mentioned elsewhere in this Guide, important, food items are, in fact, given import subsidy.
- (ii) Import duties have been reduced to 3 per cent ad valorem on all those items on which previously the import duties were 5 and 10 per cent.
- (iii) Import duties on all automotive vehicles have been reduced to 3 per cent ad valorem as against the previous rates of 10% (commercial vehicles) and 15% (passenger cars).
- (iv) Unit taxes i.e. import duties on the basis of quantity (unit), remain unchanged. At present, the number of commodities in this category, and the rate of duties on them, are very small.
- (v) The protective duty of 20 per cent ad valorem were to continue on those commodities for which there are domestic substitute production, (for details see Appendix 4).

The protective import duties are granted by the Council of Ministers on many considerations, such as consumers' welfare and potential industrialisation of the Kingdom. These are

granted for a limited period. As mentioned elsewhere in this Guide, there is no import duty on machinery and raw materials.

APPENDIX 9

FOREIGN TRADE

Foreign Trade is of very great importance to the Saudi economy. The production and export of oil account for the bulk of the GDP, foreign exchange earnings and government revenue. As the domestic production base is limited, imports are the main source of supply of goods to the Kingdom. In view of the importance of foreign trade for development of the economy and welfare of the people, the government has followed export, import and exchange policies best suited to an economy having a predominant foreign sector.

Table 1 gives the direction of Saudi trade for 1976 - 1978. Table 2 gives a breakdown of the goods traded for the same year. Table 3 gives Saudi imports from major industrial countries in percentage terms, while Table 4 shows private sector imports financed by commercial banks.

Table 1 DIRECTION OF TRADE

Countries grade in order of 1978 imports	IMPORTS		EXPORTS	
	1976	1977	1976	1977
	%	%	%	%
U.S.	18.7	18.6	4.8	9.5
Japan	12.2	11.6	20.1	19.0
West Germany	8.3	8.4	3.1	2.9
U.K.	5.9	6.2	4.9	4.2
Italy	4.9	6.1	6.4	7.3
France	2.7	3.3	11.5	9.5
Netherlands	3.7	4.4	5.1	5.3
South Korea	0.7	1.3	1.9	2.5
Switzerland	3.6	2.9	-	-
Belgium	1.7	1.6	2.6	3.4
Taiwan	1.0	1.5	1.1	1.1
Lebanon	2.4	2.3	0.1	0.3
Sweden	1.1	1.0	0.8	1.0
Others	33.1	26.3	37.6	33.9
Total	100	100	100	100

Source: International Monetary Fund. Direction of Trade Yearbook 1979

Table 2 FOREIGN TRADE (SR bn)

	1976	1977	1978
Live animals and animal products	925	1,465	2,057
Vegetable products	1,478	1,647	2,730
Animal and vegetable fats, oils and their products	147	224	296
Prepared foodstuffs, beverages, spirits, vinegar, and tobacco	986	2,029	2,719
Mineral products (cement)	919 (589)	1,827 (1,334)	2,192 (1,511)
Products of the chemical and allied industries	900	1,739	2,234
Artificial resins and plastic materials, cellulose esters, rubber, synthetic rubber	624	1,171	1,496
Raw hides and skins, fur skins and articles, travel goods and hand bags	101	201	277
Wood and articles of wood, charcoal, cork and articles of cork and wicker work (wood)	1,535 (505)	2,138 (1,998)	2,058 (1,845)
Paper making materials, paper cardboard and articles	254	566	771
Textile and textile articles	2,170	3,496	4,178
Footwear, headgear, umbrellas, sunshade whips, artificial flowers, articles of human hair and fans	120	242	270
Articles of stone plaster, asbestos ceramic products, glass and glassware	513	1,460	3,247
Pearls, precious and semi- precious stones, precious metals, articles and imitation jewellery	1,374	1,906	1,659
Base metal and articles of base metals	3,586	7,650	9,588
Machinery, mechanical appliances electrical equipment and parts	7,454	13,961	19,844

Transport equipment (vehicles)	5,632 (3,309)	6,607 (5,100)	9,036 (5,562)
Optical, photographic, musical, medical precision instruments	1,139	1,714	2,653
Arms, ammunition and parts	171	182	44
Miscellaneous articles	571	1,216	1,818
Works of art, antiques	92	221	13
TOTAL	30,693	51,662	69,180

Table 3 SAUDI IMPORTS FROM MAJOR INDUSTRIAL COUNTRIES
FIRST QUARTER 1978 and 1979

	1978	1979
	%	%
U.S.A.	22.1	23.3
Japan	17.0	13.8
West Germany	10.6	12.1
U.K.	8.0	7.7
Italy	6.6	7.4
France	4.4	5.0
Rest of the world	31.4	30.7
TOTAL	<hr/> 100 <hr/>	<hr/> 100 <hr/>

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PART TWO

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CHAPTER I

MANAGEMENT THOUGHT

"One of the most dramatic changes in the theory of management during the last several years has been the emergence of the idea that management differs from one organization to another . . . that the proper or the best management system depends upon the situation that the organization faces".

from 'Readings in Management' section A, Edited by M. Richards and W. Nielander, published by South Western Publishing Co., 1974.

"The beginning of administrative wisdom is the awareness that there is no one optimum type of management system"

Tom Burns

"The problem of management theorists has therefore changed from a search for the 'one best way' of doing things, to study of the kind of situations in which management practices are effective. The task for the manager then becomes one of analysing his organization and its environment to discover what 'kind' of organization it is, and then selecting the appropriate practice for his situation".

Angela Bowey in 'Tailor-made Management Policies as

an Alternative to Panaceas' - unpublished doctoral thesis, Manchester Business School, 1972

A review of management literature and the development of management thought shows that ever since the early concepts of Fredric Taylor on Scientific Management, management theory has experienced an almost continuous stream of formulations, predictions and prescriptions of how to manage.

Management theory was split into a fragmented body of knowledge. The confusion of some management theorists of the day was reflected in two similar articles by Harold Koontz: 'The Management Theory Jungle' (1961)¹ and 'Making Sense of Management Theory' (1962)².

Koontz identified several schools of thought. They include the management process school also known as the classical traditional or universalist school, the empirical school, the decision theory and mathematical school, and the social sciences school.

R. C. Appelby lists, for convenience, the development of management thought under four periods, namely early influences, scientific management, human relations movement and modern influences³. Modern influences should include among others, the contributions of contingency theory (the technological school), decision theory and the contributions of the techniques of management sciences, such as operational research analysis as well as policy studies in general. More recently the importance of the

environment of the firm has received much attention.

The Management Process school examined the functions of managers and the process of getting things done through and with people in organised groups. Certain management principles were considered of universal validity in their application.

The Empirical School involved learning from field case studies and actual experience arriving at generalizations.

The Human Relations School sought to restore the individual with his needs and drives to a central place in organizational theory. There was an emphasis on participation. The School was based on the integration of various disciplines such as industrial psychology and sociology, applied anthropology and social psychology. The works of Elton Mayo and the Hawthorne experiments⁴ as well as that of Likert⁵ and McGregor⁶ are among the significant contributions.

This school focused upon the individual to an extent that Barnard, an early pioneer who had glorified the organization but minimised the person, would not approve. Barnard's work⁷ led, according to C. Perrow, in three directions. Firstly there was the institutional view of the executive and his organization elaborated and refined by Philip Selznick in his 'leadership in Administration'.

Secondly it led to the idea that decision-making was the

primordial organizational act and the idea of equilibrium. This is refined and developed by H. Simon in 'Administrative Behaviour'⁸ with his emphasis on communication and in J. March and H. Simon's 'Organizations'⁹.

Thirdly, there was the human relations tradition.

R. Cyert and J. March are prominent in the development of decision-making theory. Their 'Behavioural Theory of the Firm'¹⁰ is a notable effort to link classical economics to contemporary organization theory. The Firm is considered as a shifting multiple-goal coalition of people.

Management science is applied as a generic term for all those quantitative techniques and disciplines which are essentially quantitative in nature. This includes operational research. Operational research itself is a problem-solving technique which provides management with information upon which they can decide on the appropriate course of action, usually at the corporate level. O. R. as it first developed in Britain during the war for military strategic purposes was a comprehensive interdisciplinary approach to problem-solving - very unlike today's O. R. which is heavily mathematical.

The contributions of corporate strategy and policy studies in general to the management field are also significant. Business policy can be defined as the study of the nature and process of choice as to the future direction of a firm by the responsible decision-makers¹¹.

The work of Ansoff¹¹ and its development through his assumption of a 'confident predictable environment' to the problems of information and the process of decision-making, and finally to his most recent 'unpredictable and discontinuous environment' is significant in corporate strategy studies . . .

The Social Sciences School attempts to identify the nature of the cultural relationships of various social groups and to show these as related and usually integrated systems. It was in the 1960's that contingency theory (Technological School) was gathering force with the works of writers such as J. Thompson¹², Lawrence and Lorsch¹³ and C. Perrow¹⁴, and in the U. K., Joan Woodward¹⁵ and Burns and Stalker¹⁶.

Koontz attributes the apparent disparities in the different schools to several causes. Semantic differences between different groups for example led to difficulties in equating the same concepts from among several fields. Differences in research methodology contributed to differences in perceptions of what management was all about. There was also a little bit of the 'looking at an elephant' syndrome where management theorists rooted in different disciplines reflected this in their writings. Others looked for prescriptions of what management 'ought to do'.

However some groups of management theorists in the early 1960's did see the then existing diversity of management

thought as a healthy development, because each area contributed to an understanding of management¹⁷. In fact the concepts of each diverse school remain as viable ideas in current management literature.

During the first stage in the development of a theory of knowledge such as management it is perhaps inevitable that conflicting and overlapping explanations of the field would be brought forth as alternatives. A second stage however would involve classification of parts of the total phenomena to facilitate greater understanding. M. D. Richards¹⁸ contends that (1) management can now enter this second stage of classification; (2) the appropriate type of management theory is dependant upon the degree of uncertainty and complexity facing the firm's decision makers and (3) that each different management theory or system has characteristically different subsystems for organising, planning, controlling, motivating and staffing.

The resulting formulation of management theory thus gives a classification into which most prior developments can mesh into a more meaningful perspective.

Richards notes that one of the earliest conceptualizations that suggested pattern rather than confusion came from the field of leadership. Tannenbaum and Schmidt¹⁹ showed that different styles of leadership, e.g. autocratic or participative, could be appropriate depending upon the situation in which leadership was being exercised. Thus no single approach was best in all cases.

Similarly Tom Burns in collaboration with G. H. Stalker²⁰ in studying the attempt to introduce electronics development work into traditional scottish firms led them to describe two 'ideal types' of management organization which are the extreme points of a continuum along which most organizations can be placed. The two 'ideal types' are the mechanistic type of organization which is adapted to relatively stable conditions and the organismic type of organization which is adapted to unstable conditions.

Additional studies have also suggested situational patterns of relations between appropriate types of management systems and environmental factors facing the firm.

Joan Woodward suggested that the most appropriate form of organization structure is dependent upon the type of technology employed by an enterprise.²¹

Lawrence and Lorsch²² examined the relationship of organization structure to environmental uncertainties as represented by market variations and the technological change in products or processes. They showed the need for organizational differentiation and integration as environmental uncertainty increases.

Other research results similar to those mentioned are seen to be consistent with the propositions of open system theory which postulates that living organisms remain viable by adapting to a competitive environment through creating and controlling sub-components or processes to be compatible

with that environment. There is thus no one best management system that fits all organizations. Rather the structure, processes and leadership that might be appropriate for the firm could be quite disfunctional if employed by another facing a different kind of environment.

Emerging relationships such as those described above thus show promise of taking management theory out of the 'jungle' to a point where the diversity from the several schools of management thought merely represent reasonable adaptations appropriate to the different factors facing each firm.

Richards suggests that external uncertainty - economic, social and technical - and the complexity facing organisations have significant influence therefore on how a firm is organised and managed.

The way out of the jungle, in his contention is that there is not one management theory, but four basic types - line management, line/staff management, ^{equi}bur/cratic and project matrix - each of which may be appropriate under certain conditions of complexity and uncertainty modified by internal efficiency and human needs. Furthermore, since complexity and uncertainty can be represented on a continuum, we have theoretically an infinite variety of appropriate management systems.

CHAPTER II

THE COMPARATIVE CROSS-NATIONAL APPROACH

II.I Introduction

The traditional or universal school of management believed there were management principles or concepts that were universal in their application to any locality. The external setting of the firm - the 'macro' or societal environment (the latter in the Negandhi definition - see later) was not regarded as significant in having influence on management practice and behaviour.

According to Koontz in his classic article 'The Management Theory Jungle' this disregard for the external environment was a common factor to all the schools of management except the Social Sciences School which alone recognised organised enterprise as a social organism subject to all the pressures and conflicts of the cultural environment. Existing management theory was, therefore ill-equipped to deal with environmental influences on management practice on a cross-national basis.

R. N. Farmer and B. M. Richman¹ noted "in effect, most studies of management have taken place within a 'black box' labelled management, without much concern for the external environment in which the firms may operate. As

long as the external environment is about the same for all firms the approach is valid. However in cases where the environment differs significantly, present theory is inadequate to explain comparative differentials in efficiency. Where environments do vary, as is the case between nations, it is necessary to examine the external pressures or constraints upon internal management.

This shortcoming of traditional management theory led to the emergence, in the early sixties, of the Comparative Cross-National or Cross-Cultural approach, to the study of management. Interest in the 'macro' or 'societal' environment of the business firm increased significantly from there on.

Cross-national theorists based their new approach on the premise that cultural and other external environmental variables are a major source of variation in cross-national management behaviour². They were thus in direct opposition to proponents of the universality of management principles.

Boddewyn notes³ that the need for the comparative approach is based on the realization that comparison is inherent in scientific pursuits because it provides the necessary contrast between unique events and uncovers deviations from rules. In addition, "exposures to different philosophies and practices also helps prevent dogmatism and provincialism in the teaching and study of business administration³."

"The comparative approach goes beyond uncovering similarities

and differences or establishing what is 'universal, related or unique'; it provides interpretations that lead to the establishment of logical relationships between instances and principles, as in all true sciences⁴."

Boddewyn also distinguished between 'comparison' and the 'comparative approach'. Comparison deals with similarities and differences and the comparative approach consists of their systematic detection, identification, classification, measurement and interpretation. In the social sciences, it focuses on how things are rather than how they could or should be. It involves things, people, or symbols located in different places, events that happened at other times or sectoral elements existing at the same time and place even though few studies limit themselves to one of the three types. Thus Boddewyn distinguishes between historical, geographical and sectoral comparisons.

Comparisons are usually suggested by the fact that many phenomena appear to be universal yet take particular forms in different time and places. Kerr⁵ distinguishes between 'the universal, the related and the unique'. Cox⁶, similarly, distinguishes between 'universals, limited generalizations and specific differences'.

Similarly, A. R. Negandhi and S. B. Prasad point out that the role of the comparative approach as a research method, is to detect, identify, classify, measure and interpret the phenomena being compared. The phenomena

could, for instance, be the management process, managerial thinking, managerial techniques or any other aspect of management⁷.

The purpose of undertaking comparisons of the management process is two fold:

- a) to examine hypothesis in a broad international context (pros and cons,) and
- b) to examine the advantages and disadvantages of transmitting one or more aspects of management to a different cultural or national context.

According to Negandhi and Prasad the chief value of a comparative approach to such managerial problems lies in an analysis of the causes which have produced them, in a comparison of the differences between the various systems and the reasons underlying them and finally in a study of the solutions attempted. Thus increased understanding of different societies and analysis of the causes which underline different situations therein constitute part of the usefulness of cross-national studies.

In Negandhi and Prasad's view, theorising ought to be more than explaining and predicting; logic lies in impelling appropriate action in the present in order to influence the future. New hypotheses resulting from comparative management studies might thus produce appropriate managerial action in managerial contexts

irrespective of the country in question. Such studies are likely to minimise the impediments to the introduction of advanced management knowhow in the less developed countries.

There has been more effort in the comparative study of certain management aspects than others. These include managers' background, managerial philosophy, organisation, decentralization, decision making, and managerial style. Only a few studies have considered a wide managerial or organization spectrum. This may be attributable to the immense conceptual and practical difficulties which broad comparisons present, particularly if quantitative results are required⁸. But even within the operational areas of management one can find more effort in some areas like marketing or industrial relations than others, possibly because the cultural, environmental differences are far more significant in these areas.

As a research method the comparative cross-national approach is perhaps closer to the ecological approach to management explored by Farmer and Richman⁹, Blough¹⁰ and E. T. Hall¹¹. Nothing, however, precludes the incorporation of the concepts which are predominant in any of the other approaches. Negandhi, for instance, also uses behavioural as well as traditional concepts in his theoretical framework.

Although the comparative approach is relatively new to the management field it has been used for some time in

other disciplines including politics, economics, sociology, education, anthropology, law, art and science¹².

Writing with particular reference to organizational structures in formal organization, Evan¹³ has pointed to the need for cross-cultural comparative studies in these worlds: "A major qualifying variable effecting the impact of organizational hierarchy is the social and cultural structures of the society in which the organizations in question are embeded. This suggests the need for cross-cultural research".

As will be shown, scholars of this new approach then proceeded to build frameworks for the detection, identification and evaluation of uniformities and differences in managerial problems in different countries or regions.

Finally, recognising the need for comparison is easier than coping with some of the problems it poses. Such problems have been examined by a number of writers and some of them will be apparent further on.

II.2 Problems of Terminology

The first step in any subject should be to understand the basic terms used, and in many arts and sciences this presents no real problem. In Management, however, terms are not precisely defined and some are regarded as interchangeable.

Many words in the management field are defined by writers in accordance with their own needs and purposes. This can only be detrimental to the study of management. It is clear that a precise analysis of theory is possible only when terms are specifically defined.

According to Koontz the semantic differences and difficulties occur not only between academicians and practitioners, but between scholars representing various schools of management theory¹⁴. Further a word in one country with apparently the same meaning in another country may have a different emphasis owing to historical, social, political or professional causes. According to Massie and Luytjes²⁰, differences are found not only between different parts of the world, but also between neighbouring countries and within the western world. In the same fashion as A. Y. Abouna¹⁵ we will put forward the most likely meaning, interpretations and usages rather than add new definitions.

'MANAGEMENT' itself is a term in which there is little definitional agreement as to its nature. However, it

seems there is fairly wide-spread agreement that it means getting things done through and with people¹⁶.

But, asks Koontz: Is it people in informal organizations or in all group activities? Koontz suggests that since management is a practical occupation it should be defined in the light of the able and discerning practitioner's frame of reference. However, some limits should be drawn for the purpose of analysis and research so as not to call the entire cultural, biological and physical universe the field of management.

Koontz offers the following definition:

"(it is) the act of getting things done through and with people in formally organised groups; the act of creating an Environment in such an organised group where people can perform as individuals and yet co-operate towards the attainment of group goals; the act of removing blocks to such performance; the act of optimising efficiency in effectively reaching roals"¹⁷.

'Advanced Management' has been defined as "the special capabilities that make a manager what he is. The capacity to collect, process and evaluate information; the ability to distinguish the alternatives and make decisions; and the resourcefulness in communicating to others the reasons behind his decisions and actions"¹⁸.

J. Boddewyn identifies four definitions of management:

- 1) that management is about "managers", as persons, their identify (social origin, education, attitudes etc.) and their characteristics (physical, psychological, economic, social and political).
- 2) that management is about "what managers do", that is how they make decisions in the context of planning, organising, staffing, directing and controlling.
- 3) that management is to do with "chiefs and Indians" and a definition of formal authorities and relationships; and
- 4) that management is about the "contributions" made by managers to the organization and its participants as well as to the outside collectives (industry, economy, society)¹⁹.

J. L. Massie²⁰⁻²¹, similarly, identifies three ways of defining management:

- 1) that it is the integration and application of the knowledge and analytical approaches developed by numerous disciplines and groups and the coordination of the activities of other people and their direction towards common goals;
- 2) that it is the integration of balanced varieties of ways of thinking of the leaders in organizations, and manager's perceptions of their roles - some of these

ways of thinking are industrial engineering, economics, accounting, administration, the legal context, decision making, mathematical processes, psychology, sociology and

- 3) that it is the function performed by managers, viz. decision-making, organising, staffing, planning, controlling, communicating and directing.

Farmer and Richman regard 'management' as the hierarchy of individuals who play a direct and major role in the performance of the basic managerial functioning and/or the organization of the productive functions. In most cases a manager will be a person having subordinates, but this need not always be the case since a so-called staff man may also fit into the conception of the managerial hierarchy.

Another concept to suffer from numerable definitions and interpretations is 'organization'.

However, according to R. C. Appleby, there is really no doubt about the present meaning of organization. Its purpose is "to create an arrangement of positions and responsibilities through and by means of which an enterprise can carry out its work"²².

Blau (1968) defined a formal organization as the existence of procedures for mobilizing and co-ordinating the efforts of various usually specialized subgroups in the pursuit of

joint objectives²³. He reminds us that social interactions and activities in organizations never correspond perfectly to official prescription. Organizational roles and sub-units can be replaced or changed, i.e. organizational forms can change to meet changing internal or external conditions. Organizations are affected by internal phenomena, technology, the prevailing economy and the socio-cultural milieu. In fact most members of the management process school use the word organization to define the activity - authority structure of an enterprise. Practitioners believe that they are 'organizing' when they establish a framework of activity groupings and authority relationships. Defined in this manner organization represents the formal framework within an enterprise that furnishes the environment in which people perform.

On the other hand a large number of organization theorists apparently conceive of organization as the sum total of human relationships in any group activity; thus equating organization to social structure.

Others use organization to mean 'enterprise'. Today there is more common acceptance that there is no one best way to organise an enterprise. The most suitable form of organization will vary with environment, markets, size, technology, employee characteristics, managerial philosophy, etc.

A 'manager' can range from a simple person or supervisor to directors of multinational business corporations or

large government departments. The characteristics of managers, even within one country, is also variable.

According to Boddewyn, managers can wear a confusing variety of hats²⁴. The chief's headress may be that of:

- 1) true "manager" who concentrate on internal organization and coordination and is as such found in all economic and political systems;
- 2) "executive" whose function is to guide the business towards a profit.
- 3) "Finance Capitalist" who integrate the activities of the firm with those of other organizations.
- 4) "Stock holder" who, as legal owners of the business, may have other ends in mind.

These functions are often sharply differentiated, and are often formed by a variety of heads.

'Management Principles' are the 'generalizations' distilled from the study and practice of management. They serve as clarifying or predictive statements. The traditional or universal school of management from Taylor or Urwick, Koontz and Likert were proponents of such principles. Other schools of management theory have also produced some 'generalizations' on 'universal' concepts. Koontz believes that such generalizations or 'truths' do help in

the diagnosis and study of management and therefore serve an extremely valuable cause. The principles should not, therefore, be rejected on the basis of being 'platitudinal' or only because one principle is seen to be disregarded in practice²⁵.

The 'managerial process' or 'managerial function' is the act of managing or what managers do. The accepted classification of management processes is planning, organizing, staffing, directing and controlling²⁶. Such basic tasks or functions are common to all managers, irrespective of their technical or specialist know-how, their place in the organization or the type of organization. They are, therefore, assumed to be 'universal'.

'Function' is also used to describe the firm's operational functions' or what Farmer and Richman call the critical productive or enterprise functions. These are also considered 'universal' in that they are performed by firms everywhere. They include production, finance, marketing, personnel, research and development and data processing. They will naturally vary with the type of firm and its situational conditions.

'Management Practices' are the application of management concepts, theories and fundamentals. They are the "techniques", "tools" and "approaches" used by managers in carrying out the managerial processes. They include such tools as cost control, production planning and control, quality control, job evaluation, job description,

market research, MBO.

Management practices are sometimes referred to as "management knowledge". The term 'knowledge' in this respect could be misleading since it may be exchangeable with "know-how". The ability to implement and effectively use management practices or tools may be referred to as "management skills"²⁷. "Managerial know-how" on the other hand is used to describe the whole area of managerial principles and practices.

Koontz dealt with the semantic jungle resulting from the different schools of management. Examples of definitional uncertainty include: decision making (choosing from among alternatives or the total managerial task and environment?), leadership (synonymous with managership, or analytically separated?); communication (a simple report, or a vast network of formal and informal relationship?); human relations (the psychiatric manipulation of people, or the study and art of understanding people and inter-personnel relationship?); authority (functional authority or the ultimate authority from the source?), and management philosophy (a complex set of values, attitudes and behaviour, or a firm's relationships with external agencies?) and so on.

II.3 Environment and Culture

'Environment' and 'Culture' are critical terms in cross-national management research and hence deserve to be considered separately. In fact their definition suffers more vagueness than all the other terms used in comparative management.

A major premise of comparative cross-national management research is that the external setting of a firm influences management behaviour and practice. However, the definition of this external environment by cross-national researchers has differed according to the way they perceived it.

An early definition of the external environment was given by the pioneers of comparative management Farmer and Richman. In what has been termed 'the ecological approach'²⁸ they gave 'environment' a broad interpretation and define it as a complex of a large number of interrelated dimensions which they group into educational-cultural, sociological-cultural, legal-political and economic factors.

Other authors have used 'environment' in a narrower sense in attempting to study similarities and differences. For such authors environment referred only to a part or parts of Farmer and Richman's broader definition of environment.

Thus Harbison and Myers focussed their interest on economic factors and explanations in their analysis²⁹. Others

concentrate on cultural and sociological environmental explanations³⁰, while yet others focus mainly on sociological or psychological factors³¹. However, the greatest number of studies invoke "cultural" factors or explanations when considering the external environment³².

The relevance of culture is implied in the very term cross-cultural. However, to use 'culture' as synonymous with 'environment' as some people do is an error since culture constitutes only one aspect of the total environment.

Culture on the other hand is one of those terms that defy a single all-purpose definition, and there are as many meanings of culture as people using the term³³. These diverse views of 'culture' cannot be explained solely on the ground that the writers come from different disciplines with dissimilar orientations and backgrounds, important as that may be. In Ajerferuke and Boddewyn's view, the problem lies in the concept of "culture" itself which suffers ambiguity since it has never been properly defined anyway.

Regarding 22 studies providing a cultural explanation to cross-national differences, Ajerferuke and Boddewyn found only two which venture any kind of definition of "culture"³⁴. One defines culture as "the attitudes, beliefs and values of a society"³⁵ and the other in a more general way as "the whole complex of distinctive features characteristics of a particular stage of advancement in a given society"³⁶. The second definition is significant in that it underlines the dynamism inherent in every culture by stipulating a

point in time.

The remaining twenty studies did not define culture explicitly but only by implication. Most of them used the term in the anthropological sense equating "culture" to either tradition, social customs, religion, language or a combination of these elements. This is unfortunate notes Boddewyn for two reasons:

- 1) it leaves the reader to the mercy and vagary of his imagination with regard to the most important term in the study, and
- 2) more importantly, lack of definition prevents the reader from understanding the logical process leading to the authors conclusions.

Thus it seems that "culture" although being used as an independant variable in most cross-cultural management studies, has a most obscure identity. Under such circumstances, it is difficult to know what is being linked with what. This suggests that culture has been used as a residual variable rather than an independant or explanatory variable.

Similar concern has been expressed by Roberts in her 1974 review of cross-cultural studies. "Without some theoretical notions explaining culture and predicting its effects on other variables we cannot make sense of cross-cultural comparisons. The problem is to explain the effects of culture

on behaviour, not to make inferences about behaviour in spite of culture"³⁷.

Clyde Kluckhohn and William H. Kelly group all definitions of culture into two categories (1) Culture as an explanatory concept. By "culture" they mean those historically created selective processes which channel men's reactions both to internal and external stimuli and (2) Culture as a descriptive concept: "A culture is a historically derived system of explicit and implicit designs for living, which tends to be shared by all or specially designated members of a group"³⁸.

The predominant choice of cultural explanations is perhaps explained by the fact that "comparative management" is conducted in different cultures. Since cultures differ between countries, it is easy to assume that their differences are reflected in any phenomena found in them - including their managements. Proving it is another matter, especially when the definition of culture is 'fuzzy' or only implicit and when non-empirical methods are used³⁹. Thus much of the claim about 'culture' being the most significant variable in management comparison rests more on speculations than on facts⁴⁰.

Although its importance is not denied, the habitual recourse to cultural explanations should not be allowed to overwhelm the study of comparative management at the expense of all other explanations; Haire et al, for that matter were very cautious in their conclusions about the

significance of "culture" (which they related mostly to language and religion): "of all the variations observed, about 28% was associated with national groupings; the differences among individuals are about $2\frac{1}{2}$ times as great as the differences among countries"⁴¹. There is thus a danger of exaggerating the role of culture. It is often possible to find explanations nearer home, rather than in the Culture or Environment outside, in such "intervening variables" as Manager's background - Manager's characteristics - managerial philosophy and technology.

Ajerferuke and Boddewyn point out "we must watch against new pitfalls created by the shift to comparative management studies". "Some years ago, Farmer and Richman cautioned against what they termed the 'black box' approach to management studies" that is management studies took place inside a black box labelled "management" without much concern for the external environment outside the box. This approach was valid where the external environment was more or less the same. Where the external environment differed significantly as between countries; pre-comparative studies theory was inadequate to explain comparative differentials in efficiency.

"Unfortunately proponents of cultural explanations make this very same mistake in their analysis. Only in their case instead of the "black box" being labelled "management" it is called "culture" - a concept which is often made to stand for many unspecified influences. "Furthermore, one

must keep in mind that in explaining social phenomena (e.g. management), there is no such thing as "the" explanation. Instead, one can only argue that a particular explanation - cultural, economic, psychological or social - explains more or better than another and any such explanation can only be presented as "necessary" but never as "sufficient" since management is a complex phenomenon reflecting the influence of many environmental factors and affecting them in turn⁴²".

In Negandhi's view, the inadequacies of cultural explanations come through more clearly when we examine various comparative management studies in the context of management and organization theory. Scholars in comparative management need to take into consideration the research findings of management and organization theories⁴³.

Research on organizational pattern and effectiveness suggests a considerable impact of technology⁴⁴, technological and market changes⁴⁵, market and economic conditions, as well as the legal apparatus and the nature of collective bargaining⁴⁶.

Negandhi gives an excellent conceptualization of the relevant environment into three different layers, organizational environment, task environment, and societal environment.

The organizational environment can be conceived as the

environment existing within the 'closed system' that works the boundaries of the organization. This layer of environment is largely under the purview of the managers or decision makers. Size, technology, organization climate, and human and capital resources of the firm are some of the important variables identified under this environmental layer. Indik⁴⁷, Woodward⁴⁸, Hickson⁴⁹ et al, Perrow⁵⁰, and Litwin and Stringer⁵¹ are among those who throw considerable light on the impact of this organizational environment on organizational patterns and effectiveness.

The task environment has been defined by Dill⁵² as "that part of the total environment of management which is potentially relevant to goal settings and goal attainment". Similarly Thorelli has defined it as "that part of the total setting with which the organization is transacting and in which it is competing⁵³". Thompson⁵⁴ compares the concept of task environment with the concept of organizational domain. It includes typically distributors, suppliers, employees, consumers, stockholders, government and community. The research studies of Dill, Thompson, Lawrence and Lorsch and Negandhi and Prasad show the impact of this environmental layer on organizational patterns and effectiveness.

Finally one can conceive the third layer of environment as the societal or the macro environment (economic, political, social, cultural, legal) in a given nation.

Negandhi concludes that a review of comparative management studies showed that most studies have dwelled on the relationship between one element of the societal environment, namely "culture" and management attitudes and behaviour. "In order to establish the relationship between cultural variables and organizational pattern and effectiveness, we need to consider in our research design (at the very minimum) those variables listed under task and organizational environments".

In an earlier reference to this problem Boddewyn and Nath referred to the "overcompensation" by cross-cultural researchers. In their view the problem became one of overcompensation with some writers advocating an 'environment-first' approach, i.e. that one must compare the environments first and look for constraints, remedies and explanations mainly in the environment. Others look at the macro setting as only one constraining and explanatory factor to be investigated while particular management phenomena are being compared. The two approaches are complementary, but Boddewyn maintains that comparative studies ought not to be the same as ecological studies, that the most practical order of comparisons is of the systems first rather than their settings and that consideration should be given to the "intervening variables"⁵⁵.

Boddewyn also identifies some of the major characteristics of the environment. In the first place "not everything in the world of business is relevant or equally relevant for its understanding"; comprehensive surveys in his views

probably reflect ignorance of what really matters and to what degree, and risk "smothering the analysis in an environmental blanket". Secondly, "the environment is generally not 'given' but must be empirically and painstakingly determined". Our perception and cognition of environment is limited, and we can only 'satisfice' our understanding of its significant facts. Finally, "what constitutes the environment is relative and varies with the level of the phenomena studied". Environmental factors are not static, nor is their impact or influence on, or interaction with, management a one-way process. An inter-action is recognised to exist, the exact nature and degree of which is difficult to make and is seldom made explicit. While it is possible to determine that something is an important or indispensable condition which, if present makes probable the occurrence of a particular event, causes and effects can, at best, be stated in probabilistic terms, allowing for the existence of other variables. The field of business study has thus witnessed a shift from a time when most management theorists, researchers and writers were primarily concerned with the internal functioning of an organization and the effects of such factors as size, technology, goals, structure and policies on management behaviour and performance to the analysis of organizations as systems operating within and interacting with an external Environment⁵⁶.

II.4 The Question of Universality of Certain Management Principles

Abouna in his thesis, covered this question fairly adequately. The universality of certain management principles has been questioned by many but the existence of widely applicable concepts and general 'truths' has also been accepted by many. Furthermore, the belief that environmental differences do affect the manner and effectiveness with which most managerial concepts are applied has also received widespread acceptance.

Likert, a 'universalist', believes that basic principles and body of knowledge on such matters as leadership, management and organizational performance apply everywhere regardless of country or culture⁵⁷. According to Likert this is so because:

- a) human nature is the same the world over;
- b) the scientific method is the same the world over;
- c) industrialization is likely to narrow cultural differences, and
- d) culture influences the method of application of basic principles but is not itself a basic principle of management.

Likert suggests that some research findings support his

thesis. He also proposed a universal theory of management and organization.

Meggison and Macann⁵⁸ - also 'universalists' - support Likert's thesis. They also believe that a core of management principles exists which is applicable everywhere. They qualify this belief, however, by stating that the effective utilization of such principles may be modified by the individual managerial philosophies applying such principles. Furthermore, this philosophy of management may be modified by the cultural environment.

In effect they maintain that culture, the level of economic and technological development and the attitudes of managers may seriously impede the application of the management principles. They also consider culture to be a man-made phenomenon and as such can therefore be changed by man. Comparative management studies have also contributed valid 'generalizations', although often tentative and suggestive rather than conclusive. Some of these studies have also supported some previously held universal concepts. Harbison and Myers, for instance, have stated that the general direction of management development in all advancing industrial societies is the same. They also believe that "the use of managers is accelerated by increases in organizational size and environmental complexity"⁵⁹.

Haire, Ghiselli and Porter state "there is a very strong tendency for managers to express similar beliefs about

management and in this sense; the values, perceptions and attitudes of management can be said to be universal, even if varying according to "clusters" of nations⁶⁰. Haire et al conclude that managers do not differ in their needs but rather in the priorities and degrees of satisfaction of these needs. Other cross-cultural researchers have found evidence of universality of some aspects of western or American management and the non-universality of others. Gonzales and MacMillan⁶¹ found the scientific aspects of management to be universal and transferable but also found evidence of a lack of universality of contemporary American philosophy particularly pertaining to inter-personal relations. Oberg⁶² on the other hand has doubts on universality and believes that even if the game is the same in its fundamentals; the ground rules are different as are the problems. Thus it seems that the debate is not on the existence of certain universal or generally valid principles as to which concepts are so.

New 'generalizations' have also emerged from the comparative management studies although most are of a tentative nature.

The conclusions arrived at are thus:

- 1) that there are concepts which have regional or universal validity and applications;
- 2) there are those which require minor modification and adaptation on transfer; and

- 3) other concepts are strongly culturally-based and their transfer is invalid or requires major modification.

CHAPTER III

A REVIEW OF COMPARATIVE MANAGEMENT STUDIES

III.I Introduction

Since the publication of Harbison and Myers book 'Management in the industrial world' (1959)¹, many management scholars have devoted their attention to managerial systems in different cultures and nations. Much has been said and written in this area which has now come to be identified as the discipline of comparative management.

Conceptually, it is possible to distinguish between international management (concerned with the management and operations of multi-national firms) and comparative management (concerned with cross-cultural similarities and differences of management issues)².

In reviewing the cross-national research field, I have drawn from various studies and especially the papers by G. W. Barrett and Bass³ ("Comparative Surveys of Managerial Attitude); K. H. Roberts⁴ ("On looking at an elephant: An evaluation of cross-cultural Research related to organizations); R. Nath⁵ ("A Methodological Review of Cross-Cultural Management Research"); Hans Schollhammer⁶ ("Comparative Management Research: Current

Research in International and Comparative Management Issues); J. Boddewyn⁷ ("The Comparative Approach to the Study of Business Administration"); Ajerferuke and Boddewyn⁸ ("Culture and Other explanatory variables in comparative management"); Boddewyn and Nath⁹ ("Comparative Management Studies: An Assessment"); A. I. Krout¹⁰ ("Some recent advances in Cross-National Management Research"); A. R. Negandhi¹¹ ("Cross-cultural Management studies: Too many conclusions, not enough conceptualizations") and ("Comparative Management and Organization Theory: A marriage needed") and A. Y. Abouna's thesis¹².

There have been many studies of managers in different countries focusing on who they are (actors), what they do (process), how they are related to other people within their firms (structure) and/or what they contribute (function)¹³. Not all of the studies have been strictly comparative since comparison implies a research design in which a system (or part thereof) is studied in relation to another. Nevertheless, cross-cultural or cross-national comparisons can be found in all four categories of actors, process, structure and function, on who the managers are; studies by Lewis and Stewart¹⁴, and Granick¹⁵ are cited, on what managers do; the studies by Richman¹⁶ and Fayerweather¹⁷ are cited; on how they relate to other people, studies by Bendix¹⁸ and Hartmann¹⁹ are examples, on what they contribute, Harbison and Myers²⁰ work is cited. Finally Farmer and Richman's²¹ work is an example of how managers are affected by their ecological environment.

III.2 Comparative Management Research Orientations:

Schollhammers classification

Schollhammer groups all research effort in international and comparative management into two broad categories or research orientations²². The first category is the theory-building or theoretical-abstract group which aims primarily at the establishment of a theory by advocating various models, conceptual frame-works or typologies for describing, analysing, evaluating and comparing management systems around the world. The second category is the empirical group that aims primarily at the accumulation, explanation and evaluation of empirically derived factual data.

Each of these two major research orientations has in turn various sub-categories.

On the theory-building side Schollhammer identifies conceptualizing and synthesizing studies.

The conceptual group was devoted to developing models, frame-works or typologies as an aid to the systematic detection, explanation and evaluation of international business phenomena. Its purpose is to assist deductive elaboration and the confirmation or refutation of theoretical-abstract constructs by suggesting hypothesis for testing.

Boddeyn and Nath²³ similarly identify a "conceptual"

group of studies in which an attempt is made to build a rather comprehensive conceptual frame-work for comparative management studies.

The pioneering work in this orientation was Harbison and Myers²⁴ conceptual frame-work for a cross-cultural investigation of the management situation from three points of view:

Management as a resource and the intensity of its utilization

Management as a system of authority

Management as a class or elite.

This scheme was then used as a basis for describing and analysing the management situation in twelve countries. Their interest was in economic development.

Another conceptual frame-work is that of Farmer and Richman²⁶. Although their frame-work has been labelled, the environmental or ecological approach; Farmer and Richman share with Harbison and Myers their basic interest in the role managers can play in economic development. The basic assertion of their model is that the external environmental factors such as economic, political, legal and socio-culture conditions have an impact on management practices and consequently on managerial effectiveness.

A conceptual frame-work with a similar macro-orientation

with added behavioural concepts is Negandhi and Prasad's²⁷ attempt to view management effectiveness, and the effectiveness of the economic system as a whole, as the result of a specific combination of management practices which in turn are considered to be determined by a chosen management philosophy as well as external environmental factors. Negandhi and Prasad accept and retain Farmer and Richman's concept of external environmental factors. However, they also add on behavioural concepts in their model both in the concept of management philosophy (considered influential on management practice and equated with management attitudes towards such task agents as employees, consumers, distributors, suppliers, stock-holders and government - later labelled task environment) and in the measurement of management effectiveness where behavioural concepts such as employees morale, satisfaction, turnover and absenteeism are used (enterprise effectiveness, however, is measured in economic criteria such as profits, sales etc. in their model).

Conceptualizing studies are few in number and have been unsuccessful as a nucleus for systematic and extensive empirical research. A major reason for this situation lies in the fact that conceptualizing frame-work have tended to be very global and their proponents did not succeed in operationalizing them. Substantial empirical verification has not resulted for any of these constructs and none have led to the formation of a particular 'school'.

Consequently comparative management research is characterised

by a lack of interaction between theorising at the conceptual level and the empirical work that is being pursued. Thus most research is based on ad-hoc expedient frame-works of analysis and not on the existing global theoretical constructs.

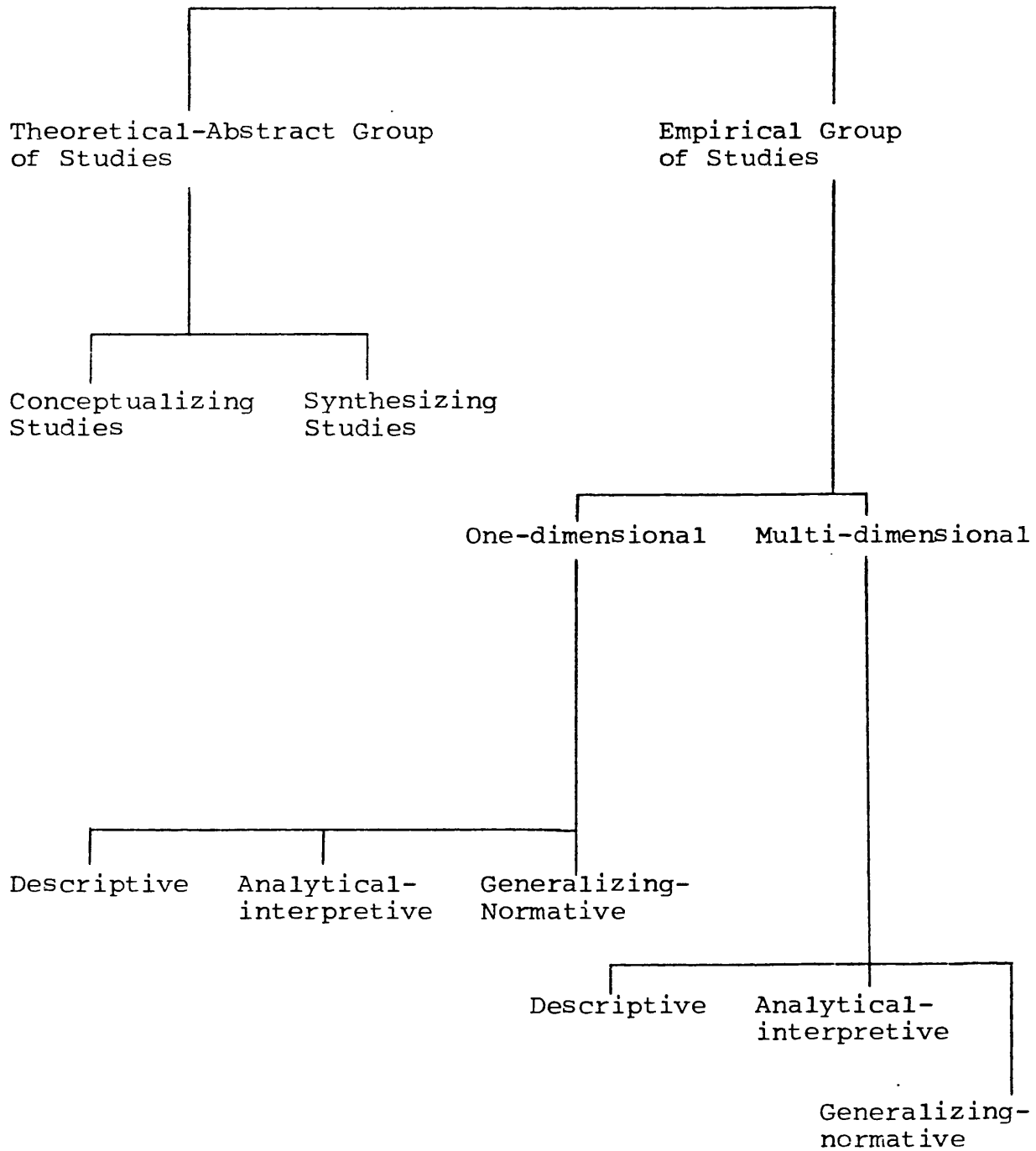
The other theory-building sub-category is the synthesizing effort. This aims at synthesizing the state of the art of the field or at least certain dimensions of it. The purpose of these studies is to present research results and the essential relevant issues without adherence to a particular methodological approach. Their scope is either very broad providing a survey of the whole field or relatively narrow by concentrating on a functional area such as international marketing. A synthesizing study with a broad orientation is Roy Blough's "International Business: Environment and adaptation" which focuses on three broad sets of environmental factors and their influence on international business operations; governmental policies, cultural characteristics of a country and its stage of economic development²⁸.

Synthesizing studies have the merit that they show the range of issues researchers and practioners are faced with. Most of these studies, however, are eclectic in the sense that no attempt toward a systematic inclusion of existing empirical studies is made. Another criticism is their lack of uniformity from a methodological point of view. A review of the field leads to the conclusion that conceptualizing and synthesizing studies are largely

independent of each other instead of being mutually supportive.

Most of comparative management research, however, falls within the empirically oriented group. This group is divided into one-dimensional and multi-dimensional studies depending on their scope and the number of issues they deal with. Each division is further divided into descriptive, analytical-interpretative and generalizing-normative (or hypothesis-testing) research (Diagram).

COMPARATIVE MANAGEMENT RESEARCH ORIENTATIONS
(Schollhammer's Classification)



Descriptive studies are those that present primary data and empirically verified facts without much concern for analysis and the determination of cause - effect relationships or other inter-dependencies. They are usually exploratory. Most descriptive studies are one-dimensional, i.e. narrow in scope and tend to be based on a relatively small sample. The statistical analysis, if any, is generally limited and superficial. They are not directed towards the testing of any specific theories, models or hypotheses. In addition to secondary data and impressions gained perhaps during stay in another country these studies have primarily used interviews as a means of collecting data. This information is usually gathered from a single country and then analysed in a comparative frame-work using the U.S. or a European country as a point of reference. An example of this is Myer's²⁹ (1958) study of labour problems as well as supervisory and managerial practices in India. Other descriptive studies have used the case-collection approach. An example is Skinner's³⁰ (1964) study of the management of international production. Yet another type of descriptive research has primarily employed survey techniques - mostly questionnaire surveys and randomly selected samples - An example is Lauterbach's studies (1961, 1966) of managerial attitudes towards profits, employees and productivity in twelve Latin-American countries on the basis of 400 interviews (1959-1963)³¹. Other examples here include the works of Oberg (1963)³² and Granick (1962)³³.

The proportionately largest number of empirical studies

(45%) identified by Schollhammer were the analytical-interpretative research studies (1973) with generalizing-normative empirical research taking up only 20% of the share (in a 1975 paper, however, Schollhammer notes a rising proportion for the generalizing-normative or hypothesis-testing research).

Analysing-interpretative empirical research is frequently multi-dimensional but one dimensional work is also presented and goes beyond the descriptive presentation of factual data and emphasizes explanations and evaluations.

In general the data base for the analytical-interpretative studies tends to be broader than among the descriptive studies and the investigations show a much greater attention to detail. The information is usually sought by means of questionnaire surveys and interviews. The investigation itself is frequently guided by theoretical concepts and the analysis of the findings includes a comparison with results of other relevant studies. The most notable example is Haire, Ghiselli and Porter's comparative studies of managerial attitudes³⁴. Their study was based on a questionnaire survey to which 3641 managers in 14 countries responded. Their study showed that 28% of the observed variations concerning the three basic research issues could be associated with national groupings and could be characterised as 'culture-bound' whereas for the remaining 72% of the differences; no clear pattern could be established. In their view the effect of culture on management behaviour was significant

but not overwhelming. A similar but broader investigation was undertaken by the University of Rochester.

Finally, a group of empirical studies which made up only a small proportion of total empirical studies initially but was noted by Schollhammer to be on the increase recently is the normative-generalizing (Schollhammer 1973) or hypothesis-testing group (Boddewyn and Nath 1970). These are designed to test specific hypothesis. Whereas descriptive research is built around what is out there, hypothesis-testing research starts with a notion of what should be out there. Designs are then collected to see if what is postulated is, in fact, true. The focus of this group has been relatively narrower but the methodology has been more vigorous than in descriptive studies. Similarities and differences are linked to economic development, particularly industrialization, and an attempt to isolate those management-related factors which enhance or inhibit on a country's economic status.

The approach was essentially a macro or aggregate approach and accordingly, it was concentrated on the examination of basic trends of managerial development rather than analysis of specific management practices at the firm or macro level. This approach also leads to links, theoretically and empirically, with economic development theorists. The area of discipline of economic development itself, however, if not vague, is too general to be suitable for building any framework notes Negandhi. As a result the cross-cultural management field here did not progress far beyond identifying

and noting the importance of managerial input on economic development. An example of this approach is Harbison and Myers and Kerr et al's research work³⁵. In addition, the studies of McClelland³⁶ and Hegan³⁷ also rely to a great extent on economic interpretations as well as social-psychological ones.

Some of the studies have involved replication in another country of well-known studies in the U.S. by the same author or by other scholars. This type of research can be exemplified by the surveys in the area of supervisory leadership by the Michigan Survey Research Centre which has been replicated in India. Likert (1963) used them to corroborate the original U.S. findings³⁸.

III.3 Explanations Offered for Similarities and Differences in Management Behaviour

Comparative management research has followed a number of identifiable, albeit overlapping approaches or types of explanations offered for the similarities and differences (Schollhammer 1969, Ajerferuke and Boddewyn 1970, A. R. Negandhi 1975). These can be categorised as economic explanations, environmental (or ecological) explanations, social-psychological explanations and behavioural-cultural explanations.

The economic approach is based on the basic premise that managerial input plays an important role in achieving rapid industrial and economic development in under-developed countries. Management practice is more significantly correlated to the stage and pace of industrial development than culture.

The second approach is ecological (Schollhammer 1970) or environmental (Negandhi 1975). Utilising economic development as a main premise, this approach attempted to highlight the impact of external environmental factors, e.g. socio-economic, political, legal and cultural on management practices and effectiveness. It is essentially a macro approach. The work of Farmer and Richman exemplifies this concern. The underlying hypothesis here is that managerial practices and effectiveness are the functions of external environmental variables, and accordingly, interfirm differences in both practices and effectiveness

can be explained on the basis of differences in environmental conditions facing firms in different locations and/or countries.

The classifications of environmental variables by Farmer and Richman and others has been useful in drawing attention to the significant external variables affecting the workings of complex organizations. The author considers Farmer and Richman's greatest contribution lies in defining the 'outer boundaries' of the so-called 'societal environment' (Negandhi 1970). The overemphasis on environmental factors, however, has led to the belief that individual enterprises are basically passive agents of external environments. This may not be so. Both a manager and an organization interact with the environmental stimuli and attempt to mould them in order to achieve desired goals and objectives.

Boddewyn aptly points out "A real danger exists . . . of letting environment crowd the comparative analysis. Comparisons are somewhat precariously balanced between management itself and its environment". One, therefore, needs to take care "not to throw out the management baby with the environment bath or smother it in a blanket of social context"³⁹. Secondly, as Schollhammer points out, this approach was unable to cope with the fact that practically all environmental conditions are interrelated, yet their impact on business operations is not cumulative and not uniform⁴⁰.

While it is theoretically possible and practically orderly and logical to draw up and categorise lists of external environmental factors, it is empirically almost impossible to appraise the precise impact of a given constraint on internal management practice and management effectiveness. Furthermore, the relevance of a long list of external factors or constraints has been reduced since Negandhi and Prasad's work has shown that it is 'perceived' environmental factors rather than actual that guide management behaviour.

A third approach is social-psychological. Here the proponents contend that manager's backgrounds, for example (such as social class, ethnic origin, education and age) and personality traits such as achievement motive and inferiority complex largely account for managerial differences among nations. This may be an extension for cultural explanations but personality traits are affected by non-cultural environmental factors as well. They also differ within a society as well as between societies. Examples include McClelland's and Hagen's studies mentioned earlier.

The fourth and predominating approach is behavioural or behavioural-cultural. This approach attempts to explain behavioural patterns between individuals and groups in organizational settings. Here authors have concentrated on three different aspects:

1. Understanding "National character profiles" and

deducing from this knowledge certain aspects of organizational behaviour pattern.

2. Attitudes and perceptions of managers concerning some key management concepts and activities.
3. Prevalent beliefs, value systems and need hierarchies in a given society.

The basic assumption here is that attitudes, beliefs, value systems and need hierarchies are functions of a given culture. Therefore, by establishing relationships between these concepts and managerial practices and effectiveness, one can deduce the impact of cultural variables on management practice.

Negandhi points out that one can easily be convinced that the attitudes, beliefs, values and need hierarchies are different in different societies. They are even different among different sub-groups (ethnic and/or occupational) within a given society. However, the claim regarding the linkage between culture and attitudes, attitudes and behaviour, and behaviour and effectiveness raises a variety of conceptual and methodological problems⁴¹. First most of these concepts are ill-defined (see earlier notes on culture and environment). Second if one is interested in understanding and explaining inter-firm differences in managerial practices and effectiveness, then there is increasing evidence to support the contention that management practices, behaviour and effectiveness are

as much, if not more so, functions of such contextual variables as size, technology, location and market conditions as they are of socio-cultural variables.

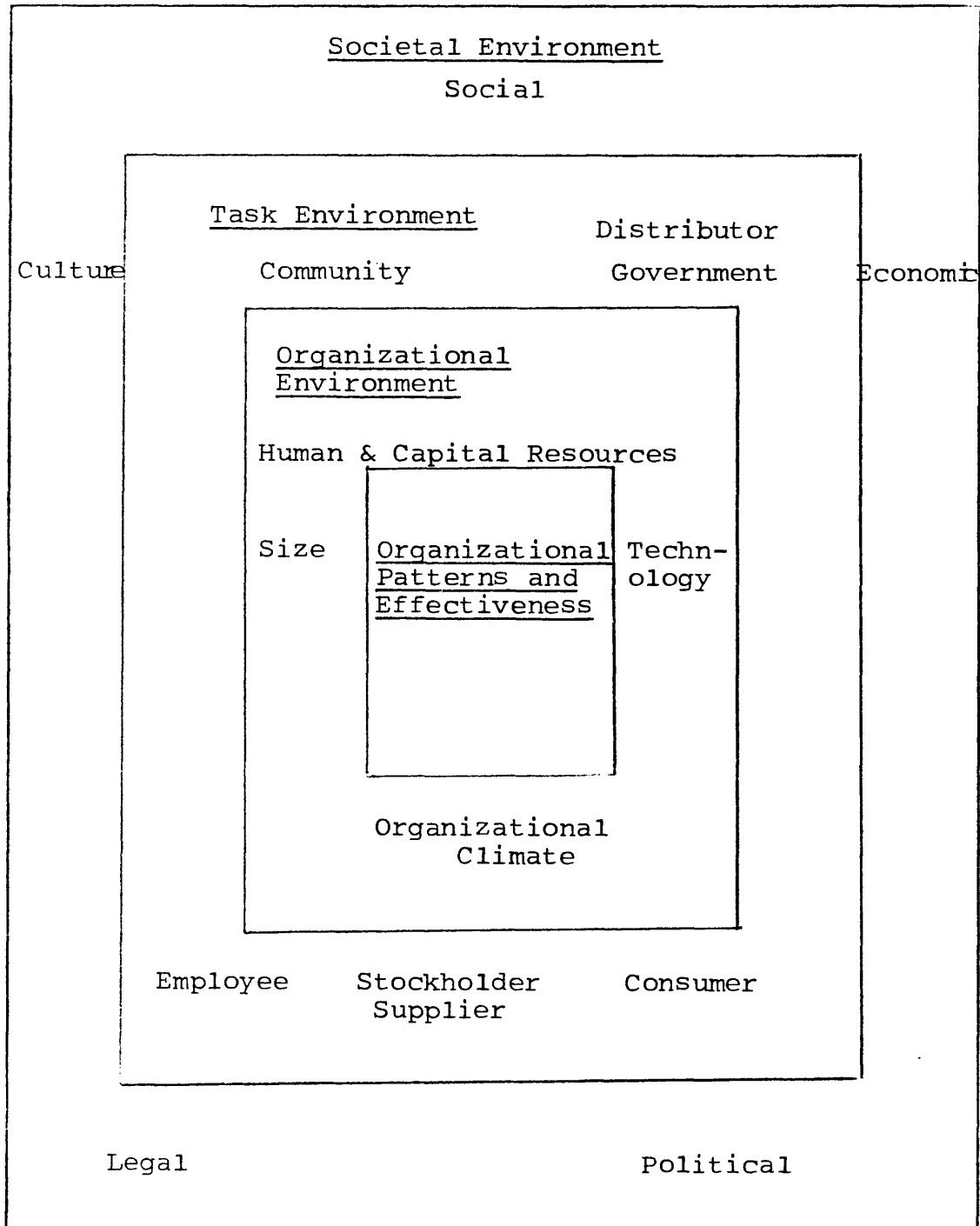
III.4 Negandhi's Integrated Concept

Negandhi suggests that the inadequacies of behavioural-cultural explanations need, therefore, to be overcome through a marriage with organization theory⁴². Negandhi then produced an excellent conceptualization of what matters; which includes all factors that could possibly affect organizational pattern and effectiveness.

The relevant environment affecting management and organization patterns and effectiveness is conceptualised into three different layers: organizational environment, task environment and societal environment. (Diagram).

(Diagram)

Determinants of Organizational Patterns and Effectiveness



The organizational environment is conceived as the "closed system" that make the boundaries of the organization. This area is under the purview of managers. Size, technology, organizational climate and human and capital resources of the firm are some of the important variables identified. Indik⁴³, Woodward⁴⁴, Hickson⁴⁵, et al, Parrow⁴⁶ and Litwin and Stringer⁴⁷ are among those who throw considerable light on the impact of this environmental layer on organizational patterns and effectiveness.

The task environment has been defined by Dill⁴⁸ as "that part of the total environment of management which is potentially relevant to goal settings and goal attainment". Similarly Thorelli⁴⁹ has defined it as "that part of the total setting with which the organization is transacting and in which it is competing". Thompson⁵⁰ compares the concept of task environment with the concept of organizational domain. It includes typically distributors, suppliers, employees, consumers, stock-holders, government and community. The research studies of Dill, Thompson, Lawrence and Lorsch⁵¹ as well as Negandhi and Prasad⁵² clearly show the impact of this environmental layer on organizational pattern and effectiveness.

Lastly, one can conceive the third layer of environment; societal environment as the macro-environment (economic, political, social, cultural and legal) in a given nation.

Thus the review of comparative management studies (see review of 'findings' in the next section) show that most

of those studies dwelled on the relationship between ONE element of the societal environment, namely "culture" and management attitudes and behaviour. Very few studies in Negandhi's views included the variables listed under organizational and task environment in their research design. In effect those studies either implicitly assume these factors to be constant or altogether ignore their relevance to organizational patterns and effectiveness.

In conclusion one can say that any attempt to establish the relationship between cultural variables and organizational patterns and effectiveness must consider in the research design (at the very minimum) those variables listed under organizational and task environments. In addition, better conceptual definitions of the variables listed under socio-cultural factors are needed: reasonable operational measures for these variables must also be guaranteed.

Furthermoore, a critical evaluation of separating socio-cultural variables and other, 'environmental' variables (societal) such as market conditions, economic situation, legal and political apparatus may be necessary for undertaking sound future research in this area.

III.5 Summary of the Major Findings of Comparative
Cross-National Research⁵³

1. There is no one/^{best} way of doing things. Managers may achieve given objectives by various methods.
2. There is no universal applicability of either authoritarian or participative-democratic management styles. In general, the U.S. can best be characterised as democratic-participative management style, while Germany, France and some of the developing countries are authoritarian in their management style. Authoritarian style is not necessarily disfunctional in developing countries. This may be perhaps the "right type" of leadership.
3. More objective measures are brought to bear in making managerial decisions with respect to compensation, objectives, goal-setting etc in the developed countries while much subjective judgment (emotion, religious beliefs) enters into the decision-making processes in developing countries.
4. There are enough similarities and differences among the managers around the world. Similarities are explained in terms of industrialization or industrial sub-culture. Differences are explained in terms of cultural variables. Cultural factors are considered as the most important influencing variables.

It is clear that the study and practice of management has benefitted from comparative cross-national research findings. This new field of management has shown remarkable growth and today there are a number of courses, articles, books, theses, seminars and conferences incorporating its use. However it is probably true to say that there still remains serious gaps in the field both academic and pragmatic. There have also been calls for the development of an inventory of findings for both research and application purposes. In some cases future field research may also need to be more narrowly focussed.

III.6 A Summarised General Comment on Existing Cross-National Research by Leading Scholars

Boddewyn and Nath (1970)⁵⁴ comment that many comparative cross-national studies are not strictly comparative and have failed to give vigorous comparative data. Thus many studies have involved descriptions or interpretations of phenomena in a single country. While this could well be useful data for the comparative databank; comparative cross-national research involving two or more countries is more urgently needed. Nonetheless there had been a tremendous increase in research involving 2 nations over the last two decades.

Schollhammer⁵⁵ noted that a large percentage of the studies were descriptive and lacking in analytical vigour. Many were episodic and ad-hoc. Most were largely one-dimensional and directed towards a narrow issue. Often little thought is given to the design of questionnaires and nearly all studies lacked theoretical guidance to the work.

All descriptive work was found to suffer methodological deficiencies and although this tends to be 'occupational' in the social sciences where the supply of primary data is usually beyond the direct intellectual control of the researchers nonetheless many researchers have relied only on questionnaire surveys.

In this regard Schollhammer recognises a number of short-

comings. Firstly many questionnaires are poorly designed, and contain questions dealing with factual issues and subjective perceptions.

Secondly, many of the questionnaire surveys are based on a non-representative sample (questionnaires are frequently mailed indiscriminately and all responses are given the same validity although the contextual situation of respondents may differ).

Thirdly, the statistical analysis of many of the empirical studies according to Schollhammer leaves something to be desired. Frequently only percentages are reported and rarely are more advanced statistical tools of data analysis or factor analysis used.

The most significant contributions have generally been made by researchers using a variety of methodological approaches to data collection such as questionnaire surveys with subsequent interviews; or detailed case studies.

In terms of content of research, there has been distinct differences in focus and emphasis as well as similarities leading to a "jungle" (Schollhammer, 1969)⁵⁶. Among the possible causes for this Schollhammer cites semantic differences. More serious was the lack of a clear boundary of what does belong to the field (aggravated by the fact that research scholars are rooted in a variety of disciplines). Karlene Roberts (1970) regards the problem of evaluating

comparative management research as a little like the exercise of looking at an elephant since the researchers include anthropologists, economists, educators, psychologists, political scientists, sociologists and students of business - what one sees depends somewhat on where one stands. In addition there was an undue focus on managerial homogeneity which easily led to distorted results. In fact, the managerial class within any country also shows a great heterogeneity in their educational backgrounds, norms and reactions to environmental conditions. This means that it is not too difficult to find representative empirical evidence for any type of approach to management that has been advocated.

Many of the empirical studies are also self-centred in that they do not refer to or attempt to integrate the work of others. A major reason for this is that practically all researchers came up with their own research designs, developed their own instrumentation and have their own preference for a particular form of statistical analysis. Consequently comparisons between studies are very difficult or even impossible.

Schollhammer, called for more investigations of the hypothesis-testing type directed to the establishment of empirically-verified generalizations and the development of a body of knowledge from which predictions can be made (1973). Later (1975) he notes with satisfaction a small increase in this type of research⁵⁷.

Boddewyn and Nath (1970) also noted the uneven coverage of "actors, processes, structures and functions" in comparative cross-national studies⁵⁸.

Research findings are apt to be more tentative and suggestive rather than conclusive because of the nature of the field. Theoretical abstract frameworks have not provided much impetus, or many local points for empirical research, or been used as integrating or synthesising tools (Schollhammer 1973). Rather, essential guidance for researchers tended to come from traditional management and organization theory despite the fact that some comparative and logically consistent conceptual frameworks have been produced. The reason for this lies in the fact that the relatively few conceptual frameworks available tend to be much too 'global' to be effectively operationalised by researchers and include far too many variables, many of which are of relatively little consequence particularly as it is the perceived constraints, variables or factors that matter. In spite of this, the usefulness of a comprehensive framework has been demonstrated by the works of Harbison and Myers and C Kerr et al (1964) which show that a broad view can result in a better understanding than a narrowly-focused one. Farmer and Richman's framework for instance gives a much needed definition of the "outer boundaries" of the societal environmental field. For operational purposes, however, and to overcome the global drawbacks; a few other experimental designs have been suggested which are more limited in scope but more manageable such as the Estafan and Negandhi⁵⁹ and the

Negandhi and Prasad⁶⁰ frameworks.

Barret and Bass (1970)⁶¹ disagreed with the gloomy picture painted by Nath (1969)⁶² and Roberts (1970)⁶³ in their review of comparative studies. Nath and Roberts were unhappy by the progress of the field. Although Barret and Bass agreed that there remained serious methodological and theoretical problems; that the comparative research effort was fragmented and that insufficient empirical studies had been conducted, nonetheless, they thought that even by 1970 studies had produced some practical and scientific information of worth. Completed studies did reveal common findings of consequences.

Criticising Nath and Roberts for expecting one grand investigation to do everything; Barret and Bass thought that what was actually required were many investigations using many methods on many different kinds of dimensions with many different cultures to supply the bits and pieces which theorists like Hagen (1962)⁶⁴ can take and put into a meaningful whole.

It would be naive to assume, in their view, that certain practices and behaviour are not dysfunctional for an organization. The example of Latin-American board meetings failing to maintain an agenda, meeting-notes and record decisions was cited. This and other socio-psychological factors and habit patterns have an important role in developing countries (Heller, 1969)⁶⁵. What is required is an explicit delineation of the values and attitudes

which lead to this behaviour.

Barret and Bass note that one reason for past difficulties in comparative studies may be that replication of studies is seldom undertaken in the behavioural and social sciences. They also refer to the difficulties of the ubiquitous translation problem encountered in cross-national research. None of the studies reviewed by Barrat and Bass had a true random sample of managers. Since this would be difficult anyway they contend that it is more important to have consistency of managerial responses within organizations and between countries. Another notable lack is the identification of the manager's organizations in some studies. Sophisticated frameworks which have been developed to classify organizations such as Perrow's (1967)⁶⁶ and Woodward's (1965)⁶⁷ have not been utilized.

Barret and Bass note that we should not depend on any one research method. Confidence in outcome can occur after we have obtained similar results with diverse methods. They thought cross-national statistical analysis of surveys of managerial actors would be useful. Nonetheless they contend that all the methods of the social scientists are available. Needed most of all are some simple models to direct attention to the variables of consequence from among the thousands which can be studied. More significantly they state that from the evidence presented, it would seem naive to maintain that culture is not an important variable in influencing managerial attitudes and behaviour. Negandhi

in reply to this, maintains that he agrees with Ajerferuke and Boddewyn that much of the claim about "culture" being the most significant variable in management comparisons rests more on speculation than facts . . . (and) we should re-examine our habitual recourse to cultural explanations. Negandhi's integrated concept of the three environmental layers affecting management behaviour we find excellent. It seems however that what we are still short of, is an indication of the relative importance of the three environments and their sub-components.

Barret and Bass agree however that the term cross-national is a better description of the field since national boundaries do make up for differences apart from cultural boundaries. National boundaries give rise to different educational and political institutions. "The greatest need is for more empirical research which will allow us to put more pieces in the puzzle"⁶¹.

In conclusion Barret and Bass note that they would like to see several substantive research directions. Firstly, it would be useful to determine universal phenomena. Secondly, generalizations should be established about economic variables that make a transnational difference (eg managers from LDC's such as India tend to recommend much higher increases for a man of low merit than to their counterparts in say the U.K.). Other economic variables that need exploring they thought include the nature of the market, national growth rate in GNP and population, socio-political structure etc. They also suggest contrasting

clusters of countries according to the industrialization stage or to the existence within them of particular authoritarian ideologies, or norms about pleasure, religiosity and achievement.

They also believe that one probable way of systematically improving our knowledge concerning comparative management would be to somehow gain access to the past and future planned surveys of multi-national companies. These surveys are often extensive and tap areas of concern to those in the comparative management field. The ideal solution would be a central bank for comparative studies where an organization can deposit its survey so that other researchers could have access to it.

The author agrees with the immense potential value of information collected by the multinationals. A multi-national combine such as the Arabian American Oil Company (ARAMCO which is composed of such oil multinationals as MOBIL, EXXON and SOCAL) has already in its possession, for example, a tremendous wealth of data on Saudi Arabia of cross-national comparative research interest, unfortunately such data is mostly for internal purposes.

Interestingly, a recent article in Management Review by Orville Freeman, President of Business International Corporation⁶⁸ echoed the theme that multinational corporations have a role to play in transcultural management training and in the transfer of appropriate technology.

In conclusion, developments in cross-national management research point to major trends shared with other fields. First, there is the shift induced by the behavioural sciences from the normative to the empirical and analytical. Secondly, a move away from focusing on the general or the unique towards making careful delineations between what happens when and where and under what conditions.

Thirdly, an ecological pattern has developed emphasising that the external environment must be introduced to explain some of the similarities and differences uncovered by comparative management research. However, the research for empirical, differentiated and ecological data according to Boddewyn and Nath (1970) is still preliminary and tends to be long on variables but short on adequate data, classification of variables and organization of variables into models.

CHAPTER IV

A REVIEW OF RESEARCH METHODOLOGY

IV.I Introduction

Mention has already been made in III.6 of some of the methodological problems that have been encountered in cross-national research. Other scholars of the field have also dealt with cross-national research methodology.

Stanley M. Davis¹ distinguishes between "cases" and "case-studies". A case is the presentation of a business problem to be solved. It is primarily descriptive rather than analytical. By contrast a case study presents an analyzed situation. The author provides or suggests explanations for the phenomenon observed.

Davis considers that the case study method is not appropriate to test casual relationships between measurable variables. However, once such variables have been identified and measured, and when other quantitative techniques have established significant relationships between them, then the case method may be of value in explaining what the statistical relationship describes.

Quantitative studies, on the other hand, must often condense questions and answers into simple alternatives. Complex realities are reduced to easily manipulated aggregates, they cannot convey the qualifications, shades of meaning, ambiguities, paradoxes and contingencies that operate in specific instances. Sometimes after a survey has been conducted and its data analyzed, cases can focus on certain themes - particularly on deviant cases.

As Davis points out, in some LDC's; only a deviant minority actively engages in entrepreneurial activities. Surveys can tell us how many people in such populations are involved in business and commerce. Detailed case studies of these few entrepreneurs, on the other hand, can be more valuable for understanding how economic development takes place. Thus the appropriate choice of research method depends upon the nature of the problems to be solved and of the questions to be asked.

Davis noted that the particular theory employed by a researcher leads him to select a methodology appropriate to testing the theory. Some methodologies are also chosen because they are most likely to support rather than test the theory. One's theoretical position thus influences one's choice of compatible methodology and vice versa. The structuralist - or universalist - is more likely to use questionnaires and survey data methods; while the culturists are more comfortable with the case study method. Or put in another way, those who are more

comfortable with the methodological style of survey analysis tend to be structuralists; while those who enjoy detailed case work lean towards culturst explanatory models.

As a methodology, the case study method has been closely identified with non-quantitative research techniques. Case studies emphasize use of such tools as participant observation and life histories, rather than scales and indicies. According to Davis this has tended to keep the more scientifically oriented researchers away from the case method. Davis maintains that nothing would prevent, however, doing a quantitative case study. Crozier's case study², notes Davies, was for example substantially quantative. Davis also notes the low costs involved in the use of case studies. As a practical issue; it is cheaper to subsidize one researcher with a tape-recorder and a graduate assistant.

Davis concludes that the case study method is an important comparative management tool and that it should be given more attention.

John Fayerweather³ thought Davis did not emphasize strongly enough the importance of case studies. "They are in fact the only means we have for analyzing the full complexity of managerial behaviour". Fayerweather thought the survey quantitative approach is effective for obtaining broader evidence on certain portions of the subject field - notably managerial attitudes motivations and social back-

grounds, as well as structural characteristics of organizations. For the vital elements of managerial processes and the more complex forms of managerial behaviour, the case study remains the prime source of knowledge.

Fayerweather notes that too often in Academia the criteria of "hardness of data" is overstressed, losing sight of the ultimate criterion of advancement of knowledge. "Whilst it certainly proper to stress the scientific approach and to maintain constant pressure for vigour in research; methodologies should be judged by their productivity in generating knowledge which depends upon a variety of conditions varying from field to field".

In a paper discussing methodological issues in cross-national research, R. Nath⁴ suggested some guidelines for future research in comparative management research.

In his view the primary purpose of any scientific discipline is to build an inventory of valid propositions which may help toward the formulation of a viable theory.

Nath distinguishes between empirical and non-empirical propositions. Empirical propositions are capable of confirmation or rejection through inter-subjective ("objective") processes of observation following the methods of science; whereas non-empirical propositions may be regarded as statements which cannot be confirmed or refuted by objective scientific methods based on observation. Empirical propositions are further classified into two broad categories -

direct empirical and potentially empirical - the former can be subjected to an empirical test while the latter has variables of a highly abstract nature for which empirical referents cannot readily be specified.

In Nath view, most of the theorizing in comparative management such as Harbison and Myers and Farmer and Richman, have been based on such potentially empirical propositions. Schollhammer (1969)⁵ commenting on the ecological approach pioneered by Farmer and Richman states: "theoretically it is possible - and it makes an orderly logical impression on the reader to draw up a list of external environmental factors, and separate them into black boxes with labels such as cultural-sociological constraints etc However, empirically it is almost impossible to appraise the precise impact of a given constraint category on internal management practices and management effectiveness. As a basis for empirical research, the ecological orientation of comparative management theory is thus operationally defective".

Nath contends that there is a need to achieve balance between the two empirical propositions. In his view there were insufficient propositions of the directly empirical type. Nath thought that research designs in general should be less global than those employed by Harbison-Myers and Farmer-Richman. "There should be an explicit attempt to test a few directly empirical propositions in comparative studies while at the same time, looking for unanticipated discoveries". This calls for a semi-structured research

design to the extent that it focuses upon the testing of a limited set of propositions but is unstructured in that it remains open to other methods and unanticipated discoveries. Thus such cross-cultural research can be conducted with all the open minded sensitivity that is characteristic of the case method.

As a result there should emerge both more knowledge about the degree of confirmation of certain propositions and case material rich in detail that can serve as the basis for creating a more adequate island of theory. Thus the semi-structured research is to be recommended for its economy in seeking multiple theoretical benefits from the study of the same body of data.

Nath divides Non-Empirical propositions into 2 types; the first type is a hypothetical linkage e.g. propositions in psychology concerning certain inter-personal processes such as relationships among superego, ego and id. It is impossible to confirm or disconfirm these psychological propositions* although they may be used to predict observable behaviour.

The second type which is more common is the normative proposition; this ascribes values to an empirical state of affairs, e.g. it is good (or bad) to have a low labour turnover. The fact that a certain state of affairs (e.g. low turnover) exists can be determined empirically so can the fact that humans involved in the situation (or objective observers) ascribe values to it (e.g. judge it

to be "good", "bad", "just", "unjust" etc . . .). The intensity with which human beings support certain values can also be made subject to empirical measurement; but the ascribed values themselves cannot be measured by the methods of empirical science.

Nath notes that most studies of foreign management systems have involved implicit rather than explicit comparisons. Such studies are full of 'normative' statements (e.g. that it is good to have competitive markets). Such statements can neither be tested empirically nor can they serve any other useful purpose and can lead to erroneous comparisons. "An imaginative if not more useful way to treat values in comparative research, is to use values as a research tool through which to generate empirical propositions".

In comparative management research procedural precautions are more critical and some problems more difficult to identify and solve than for within culture studies. Nath identifies the following as important methodological problems:

- 1) Ethnic influences on researchable questions: "We are all slaves of our own culture and comparative management scholars are no exception". While being bilingual or multi-lingual helps; it does not make the scholar culture-free. Questions a researcher may raise in foreign cultures are more often than not an outgrowth of his own cultural milieu. Also some cultures vary as to the importance they attach to various issues - something

considered 'good' in one culture may be considered 'bad' in another. Nath calls for close collaboration with scholars from the various cultures.

2) Comparability of samples; many cross-cultural studies have suffered from not assuring comparability of samples admittedly something that is difficult to achieve anyway. Estafan et al⁶ (1970) used the technique of paired comparisons to control for the effects due to environmental variables. Two firms were considered comparable if they produced the same product, were about the size, sold to the same market, drew on the same labour force and operated under the same governmental jurisdiction.

A second sampling problem according to Nath, is that of selecting a sample appropriate for the stated objective. Most cross-cultural studies set out to compare two cultures but end up with convenience samples representing only a limited segment of the culture. Yet, the findings are usually generalized to the population at large. Also the lack of adequate secondary sources of data on population in many LDC's is a problem.

A third sampling problem relates to the employment of non-random samples as opposed to probability or matched samples. An argument can be made for employing non-random samples if it can be shown that the characteristic under examination has less variance within the culture than across secondary cultures.

3) Development of research instruments; this requires cross-linguistic and cross-cultural instrument comparability.

In Nath's view the poor quality of most cross-cultural research was in large measure due to failure to ensure the cross-culture and cross-linguistic comparability of the instruments used. Research instruments are needed that will produce an equivalence of stimulus. One way to avoid problems here is to invoke the concept of construct validity, after all the main objective is to ensure equivalence of constructs rather than words. Nath also comments that it is impossible, given our present state of knowledge, to develop a culture-free instrument.

4) Problems of data collection; In order to ensure response equivalence one also needs a comparable process of data collection. This includes establishing an equivalence in rapport between the researcher and the respondent, uniform methods of task presentation and equivalence in motivation and goal orientation.

5) Problems of interpretation of data; out of the many problems of data interpretation Nath mentions two:

a) the explicit recognition of the various limitations of the study before any interpretation of data is attempted - an element that is usually missing in comparative management studies.

b) The second problem related to the issue of culturally-bound vs culturally-free interpretations - i.e. is it

possible or even appropriate to interpret the data from an olympian, culturally-detached vantage point? Thus it is necessary to recognize the cultural biases of interpretative statements.

6) Problems of generalizing of findings; Nath notes that there are primarily two types of cross-cultural studies; the first attempts to study differences among cultures, and the second aims at building and testing theories. Most of those studying differences involved comparisons of 2 cultures. Many have used rather limited samples and hence their findings cannot be stated in general terms. The building and hypothesis-testing group faces two selection questions:

- a) how many cultures should be studied, and
- b) what are the criterion for choosing the cultures?

According to Nath, the answer to these two questions will depend upon the nature and purpose of the study. If the aim is discovering universal laws, this will require multi-national studies covering all known cultures. Nath comments that it is likely that few management principles will be found to be truly universal. Nevertheless, it may be that management principles will hold across a group of nations.

Still, it is well to realize, notes Nath that comparative management studies are more concerned with differentiation

than generalization, i.e. they strive to distinguish between the universal, the related and the unique.

Nath thought that at this stage of development, it may be more useful to get away from focusing on the general or the unique, toward making careful delineations between what happens, when and where and under what conditions. (Thus a semi-structured approach is best).

In his conclusion Nath makes the following points:

1. There is a need to conduct comparative research that is limited rather than global in scope and empirically testable rather than normative.
2. There is a need to engage in a semi-structured rather than an open-ended or a totally structured research. Nath notes that survey methodology generates quantitative data and it helps in identifying norms (means or similar statistics) and the span of variations from these norms (range, standard deviations etc).

However, it only provides descriptive information or at best static relationships and it fails to deal with the complexity of the situation. Case studies, on the other hand can deal with the complexity issues and generate very useful insights into the decision making and other management processes. The limitation of this method is that it generates qualitative data whose interpretation is subject to all kinds of interpretative biases. Besides, notes Nath,

case findings cannot usually be generalised.

Nath proceeds to suggest the semi-structured approach. This can be implemented by designing comparative case studies.

Nath calls for the assembly of an inter-disciplinary team of scholars to develop a common framework for conducting detailed and longitudinal case studies in a variety of cross-cultural and cross-institutional settings. A second way to implement the semi-structured approach is to design longitudinal surveys using semi-structured interview schedules. Finally Nath calls for team effort in conducting comparative studies. Such teams should be multi-lingual and multi-ethnic.

IV.2 The Main Investigative Approaches

Nath (1968) reviewed the different methods of investigation used in comparative cross-national research⁷

In general four categories of field studies can be identified: namely, impressionistic, long-term observation, interviews and case collection.

i - Field Studies: Impressionistic

Impressions gained during a short stay or short travels through a particular country are recorded and generalizations are often drawn from limited evidence. Hints on how to handle a situation are often given. E. T. Hall's study⁸ based on the five key dimensions: time, space, material possessions, friendship patterns and business agreements across the U.S., Europe, Latin America and the Middle East is cited as impressionistic.

ii - Field Studies: Long-term Observation

As with the anthropologist, the comparative management cross-national researcher would live in a given culture for a long-time, often as an active member, while recording his observations. Results may then be compared with those obtained in his own culture.

Abegglen's⁹ comparison of the social organization of Japanese and American factories is an example. He also

conducted many formal and informal interviews.

Hartmann¹⁰ similarly studied management in eleven-American owned subsidiaries in Germany comparing them with equivalent German management.

Fayerweather¹¹ compared firms in Mexico and the U.S. using observation as well as interviews of executives. Gonzales and MacMillan¹² selected U.S.A. and Brazil, for their study; Myers¹³ compared labour problems in India and U.S.A.; Lewis and Stewart¹⁴ compared top management in U.S.A., Germany and Britain.

iii - Field Studies: Interviews

Although most studies use interviews some are exclusively based on interviews. Examples cited by Nath include Lauterbach's study¹⁵ of managerial attitudes in five countries of South America; Granick's study¹⁶ of four West European countries; Oberg's study¹⁷ of 34 companies in Brazil and 106 in the U.S.A. involving interviews with Presidents and Vice-Presidents and Lerner's¹⁸ study of the modernising of the Middle East covering six Middle East countries.

iv - Field Studies: Case Collection

These include business cases collected for instructional

purposes (e.g. Harvard Business School) in different countries and those collected by foreign visitors to other countries, particularly visitors to subsidiaries of multinationals. A pioneering work, cited in this group is Skinner's study¹⁹ of the management of international production by the analysis of short case studies of thirty plants in seven countries.

Our own investigative approach involves a combination of long term observation, interviews and case collection.

IV.3 Other Investigative Approaches

20

Nath (1968) lists among other methods of investigation documentary studies, current statistical studies, survey studies and experimental studies.

A. Documentary Studies

These are based on comparative analyses of characteristics and relationships in already existing records and materials such as personal documents, newspaper, magazines etc.

Some cross-cultural studies have used historical analyses to compare selected aspects of two or more societies or national schemes. There has also been a number of content analyses of newspapers, magazines, films and other mass-communication documents particularly by political scientists. Documentary studies, however deal mostly with social or political systems since access to such documents from industrial organizations is less freely available.

B. Current Statistics

A wealth of statistics is available in most advanced countries. This, however, does not apply to LDC's where a common problem is the lack of reliable statistics. However, even where statistics do exist; the method of collection and aggregation of such data varies from country to country, thus making inter-country comparisons more

difficult.

Comparisons are more frequent in Economics particularly in the area of labour economics and industrial relations. Data is not normally available at an international level in other areas of the social sciences and such studies are, therefore, less frequently used.

An important exception is Udy's 1959²¹ anthropological study of 150 non-industrial largely primitive societies, based on information from the Human Relations Area Files and his 1964 study of 34 production organizations in 34 countries based on anthropological monographs and the Human Relations Area Files.

C. Survey Studies

Public opinion or polling surveys are fairly well-known in politics. Nath notes that the first cross-cultural study using survey techniques and standard questionnaires was used in the early fifties and others followed. However, such survey techniques dealt mostly with political systems not industrial organizations.

Social-psychological surveys use relatively small samples. Such surveys are normally independent of professional polling organizations. The survey instrument is usually a standard questionnaire rather than an interview schedule. They have been used in the fields of sociology, social-psychology and management, and more recently in cross-

cultural research.

Examples of cross-cultural social-psychological surveys include a study of the prestige accorded by popular opinion to comparable occupations in each of six industrialized countries and a study of American and Japanese perceptions of occupations. Also Melikian's²² cross-cultural survey of authoritarianism and its correlates in Egypt and the United States.

D. Experimental Studies

These are divided into laboratory and field experiments.

Examples of cross-cultural studies of the former include Prathro's study of Arab-American differences in the judgment of written messages.²³ Another form of (field) experimental investigation is even more rare. One example involves the replication in a Norwegian factory of an earlier experiment in a United States factory.

1V.4 Research Frameworks: Harbison-Myers, Farmer-
Richman and Negandhi+Colleagues

Most comparative management studies aim at establishing deterministic patterns of interrelationships among specified sets of management - relevant variables. Most agree on the dependant variable and tend to select managerial effectiveness, productive efficiency of the individual economic unit and total system efficiency. It is in the selection of the independant variables that a difference of emphasis is noted. In Schollhammer's classification of the field's research orientations,²⁴ mention was made of the theoretical abstract group of studies and its sub-component the conceptual group in particular. The aim of the latter group is to act as theoretical research guides or frameworks for researchers in comparative cross-national management.

Schollhammer also grouped comparative cross-national research frameworks and studies according to the different emphasis they placed on the independant variables. To simplify, the Harbison-Myers theoretical framework is regarded as being representative of the socio-economic approach. The Farmer-Richman framework was considered representative of the ecological (or societal environment) approach, while the Negandhi-Estafan and Negandhi-Prasad frameworks were considered representative of the behavioural approach. Section III.3 considered in more detail the explanations offered for similarities and differences in cross-national management behaviour.

The behavioural Negandhi-Prasad framework which also incorporates the macro-orientation of the Farmer-Richman model was found to be the most suitable for our own approach. The section which follow reviews in brief the Harbison-Myers framework, the Farmer-Richman framework and the Negandhi research designs. This is followed by an outline of the research design and methodology adopted. —

The Harbison-Myers framework

The first attempt to develop a systematic and comprehensive management framework was undertaken by Harbison and Myers with various collaborators and published as "Management in the Industrial World".²⁵

The starting point here is that management which is considered one of the factors of production in a similar way to land, labour and capital, is in fact the most critical factor for unlocking the forces of economic achievement. The authors see the manager as "the catalytic agent in the process of industrialization, ie he acts and reacts with the economic and social environment to bring about economic change".

The Harbison-Myers framework attempts to formulate global concepts of management which are equally applicable to developed and developing countries. Management is analyzed from three different perspectives; as an economic resource, as a system of authority and as a class or elite.

The analysis however is mostly applicable to large-scale industry and to the top level of management.

Management is firstly considered an economic resource.

The authors question: (1) the intensity of use of the managerial resources (2) the relationship of management to the productivity of labour; and (3) the inherent inefficiencies in managerial organizations.

Harbison and Myers conclude that the demand for management rises with such factors as:

- (1) the increase in size and complexity of organizations;
- (2) the size and complexity of market structures and mechanisms;
- (3) the rise in the level of capital investment - they regard large expenditures on capital equipment futile unless accompanied by a corresponding investment in technical, professional and managerial manpower;
- (4) the need for innovation.

They also conclude that management is the principal factor determining the productivity of labour, and that there are inherent "frictions" in all organizations which make them less efficient.

Secondly, management is viewed as a system of authority; an integrated hierarchy of people whose activities must be co-ordinated. Authority must be exercised if the organization is to function properly.

The authority system practised is a function of the different "personalities" involved and their philosophies. Harbison and Myers develop a quadruple typology of "ideal" managerial philosophies towards workers as points on a spectrum: dictatorial, paternalistic, constitutional, or

democratic and participative. In their view, there is a move towards more constitutional management as industrialization proceeds. However at any one time in an industrial society, there will be managerial philosophies and approaches at all points of the spectrum.

Thirdly, Harbison and Myers see management as a class or elite in the enterprise and in the industrial society. They question: (1) the avenues of access to the ranks of management, (2) its orientation as a class, (3) the trend towards professionalism and (4) its power position in the state. They adopt a triple typology for means of access to the managerial class: patrimonial, political, and professional, again as points on a spectrum rather than pure forms. The authors conclude that management as a class inevitably become more professionally oriented as industrialization advances and the elite becomes an elite of brains and education.

Harbison and Myers advance three "universal" propositions; (1) the general direction of management development in all advancing industrial societies is the same; (2) the pace of the march towards industrialization may be accelerated or retarded by certain factors affecting management development; and (3) there is little reason to fear that working masses in modern industrial states will be exploited by the emerging professional managerial class. Harbison and Myers use the twelve country studies covering different social structures and stages of industrialization in a discussion of the applicability of

their principal propositions.

Boddewyn²⁶ outlines the main environmental dimensions involved in his review of the Harbison-Myers study. A positive feature of their work in his contention is the dynamic nature of the overall approach. The authors focus on the evolution of management towards professionalism and democracy. Their analysis also allows for comparing dysfunctional elements in management such as nepotism. Their overall conceptual scheme is oriented to the problems of industrialization which may have to be modified for other purposes. Boddewyn comments that the Harbison-Myers research methodology is neither particularly uniform nor easily duplicable. In fact Harbison and Myers themselves recognize that their country essays are not in every respect parallel due to the different points of emphasis of the "multi-national" researchers and the traditional difficulty in obtaining access to information in many developing countries. Harbison and Myer's work however, has given large-scale impetus to the field of comparative management study.

Schollhammer notes that the results of the socio-economic approach such as that of Harbison-Myers, are frequently ambiguous, and they do not necessarily lend themselves to the support of predictions or at least normative, prescriptive statements. Another drawback is the macro-orientation ie it does not pay equal attention to individual differences in managerial behaviour or interfirm differences in a given society. Yet, the strongest criticism is the rather

limited focus of this perspective: from the broad spectrum of environmental differences, it concentrates mainly on those which are of particular interest to sociologists and culture anthropologists. This last short-coming led to the development of the ecological approach.

The Farmer-Richman framework ²⁷

The traditional emphasis on the 'internal environment' of a firm's operations by the universalists was abandoned by Farmer and Richman. Their framework was to focus on the inter-dependencies and casual relationships between a firm's internal operational conditions and processes and its external environment i.e. to use an ecological approach.

This approach is comparative management attempts to isolate those external environmental factors to which similarities or differences in managerial practices in various countries can be attributed. The business firm is seen as part of an ecological system in which external factors have a determining impact. This emphasis on the interaction between a business organization and its environment, makes it necessary to distinguish between various ecological components such as a country's sociological, political, and economic characteristics which are conceived as constraints on managerial and organizational effectiveness.

The major hypotheses of the Farmer-Richman framework are that:

- (1) managerial effectiveness is a function of various external environmental constraints;
 - (2) firm efficiency is a function of managerial effectiveness;
- and

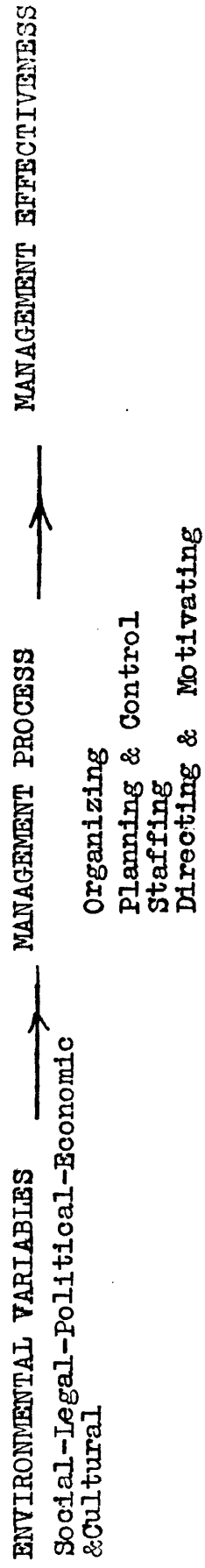
- (3) aggregate economic efficiency is a function of the efficiency of individual economic units.

With respect to environmental constraints, Farmer and Richman distinguish between four major categories:

- (1) Educational characteristics - referring to the nature and quality of the educational process and society's attitude towards education within a given country.
- (2) Sociological-cultural characteristics - meaning the dominant human attitudes, values and beliefs and the way these tend to influence economically-oriented behaviour and work-performance.
- (3) a country's political system, ideology, and specific legal regulations; and
- (4) a complex set of economic phenomena characterizing a country's level of economic activity, the presence or absence of a supporting infra-structure etc.

The interrelationships of Farmer and Richman's conceptual framework is depicted in the diagram.

FARMER-RICHMAN MODEL



With this type of investigation, Farmer and Richman attempt to accomplish five broad and interrelated aims:

- (1) to describe, explain and predict the impact of critical environmental constraints on managerial performance and productive efficiency on a widespread scale in different countries.
- (2) to link managerial and firm performance to economic development and industrial progress.
- (3) to develop prescriptive guidelines for specific countries, that indicate what action might best be taken in dealing with environmental constraints which effect managerial effectiveness and productive efficiency.
- (4) to develop prescriptive guidelines which would suggest to the management of individual firms specific actions to reduce the impact of negative environmental constraints on their performance; and
- (5) to develop meaningful answers to such questions as to the cost and relative success of the transfer of managerial and technical know-how among countries.

These are very significant aims but so far the empirical research in pursuit of these goals is very limited.

To determine the significant environmental constraints

the delphi technique is used with a number of experts in each country being invited to propose and give weights to the environmental factors which in their view are significant in affecting management practice and behaviour. The shortcomings of the Farmer-Richman model were considered earlier. The first drawback that comes to mind is ^{the} global nature of their framework and the difficulty in operationalizing it and that fact that what matters most in our view is what managers 'perceive' to be external constraints as well as actual real constraints. Their interest in the environment somewhat overwhelms the comparative analysis. Not enough allowance is made for the fact that many of the external environmental constraints are interrelated. In addition the environmental constraints that appear to have an effect on internal management management practice are so numerous that they may lead to a discussion of 'everything under the Sun' - the need to be selective is therefore important.

No allowance is made for the fact that the environmental constraints are dynamic and are constantly changing with time. Prasad²⁸ maintains that the language of the model could have been improved, and that there were sweeping generalizations and occasionally undefined and misleading terminology. Prasad also maintains that Farmer and Richman were over-optimistic about the improvability of the environment. Certainly we would agree that in the short run environmental changes are difficult and in some cases almost impossible.

Prasad also states that Farmer and Richman deal mostly with

an aggregate labelled 'management' which buries considerable variations (Public, private, small, large, modern, traditional etc. . .) within national management.

However the Farmer-Richman model has contributed much to comparative cross-national management by defining the 'outer boundaries' of the societal environment and it has therefore been used as the basis for other frameworks and comparative management research efforts. A listing of Farmer and Richman's environmental constraints is shown in Appendix.

Development of the Negandhi-Prasad framework

Negandhi has developed a number of frameworks in association with other colleagues for comparative management purposes. Such frameworks have been applied by himself and others particularly at Kent State University in field empirical work and the Negandhi-Prasad framework²⁹ in particular has been utilized in our own research design.

An earlier framework developed in association with Estafan in 1965 attempted to test the transferability of American management.³⁰ They proposed a comparison of roughly similar firms in different countries. They also propose th^{at} 'Management Philosophy' - a product of the environment is not necessarily 'given' or 'fixed' as Farmer and Richman presume and that certain elements of management philosophy can and have been imported successfully.

The primary casual factors are seen as the extrenal environmental constraints by Farmer and Richman and as the management philosophy of the firm by Negandhi and Estafan (Diagram).

Thus the Negandhi-Estafan model is built on three concepts. Management philosophy is considered as the expressed and implied attitudes or relationships of managers with some of the external and internal agents such as consumers, community, government unions, employees, suppliers and distributors.

Environmental
Variables

Farmer and Richman

Management
Process

Management
Effectiveness

Determines

Determines

Management
Philosophy

Negandhi and Estafan

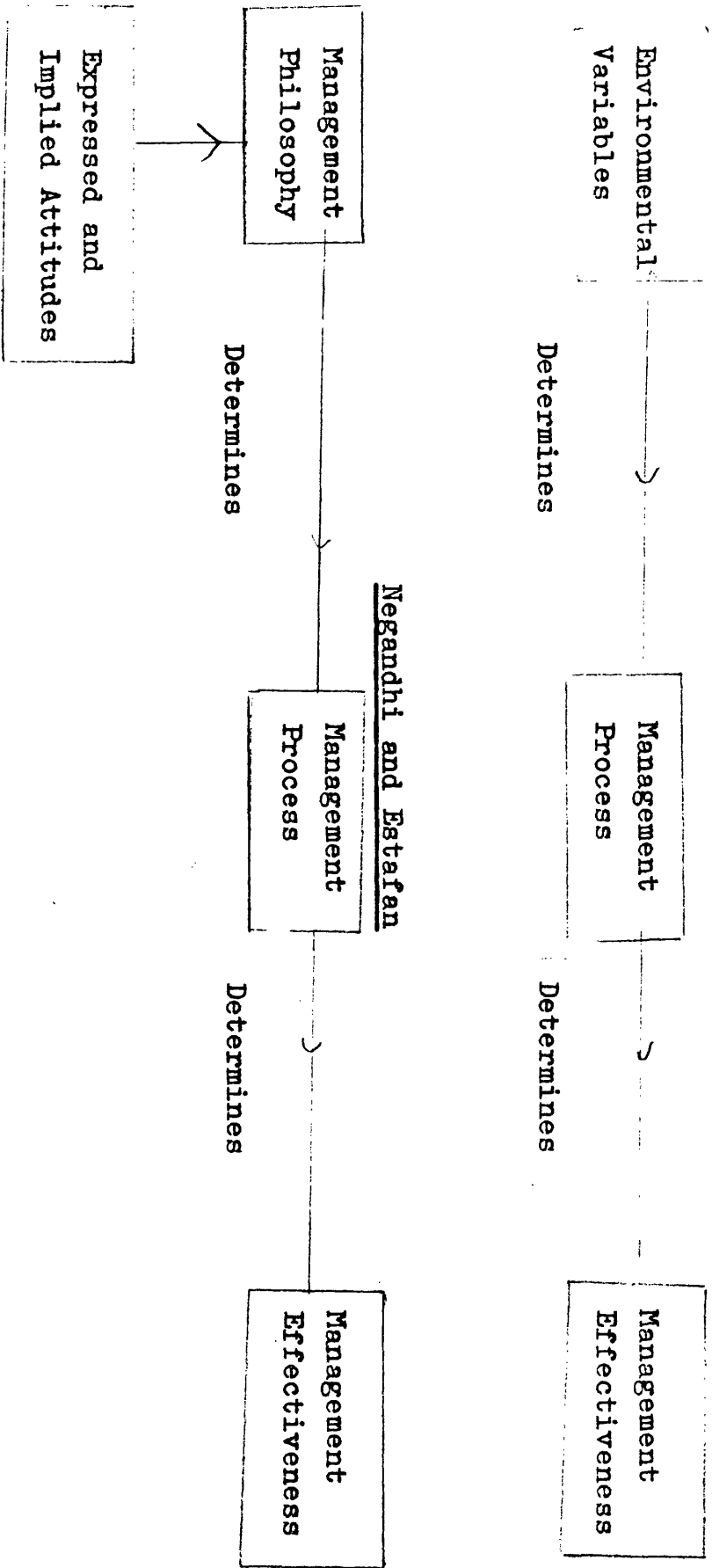
Management
Process

Management
Effectiveness

Determines

Determines

Expressed and
Implied Attitudes



Management Process is considered the way in which the manager carries out his functions of planning, organizing, directing, staffing and controlling.

Managerial Effectiveness is taken as the results achieved in terms of gross and net profits and their growth, market share and its growth, price of stock and its growth, jobs growth, employee morale and turnover, employee evaluation and ranking and public and consumers evaluation and ranking.

This last concept and its measurement was later found to be impractical in parts and was modified by Negandhi in the Negandhi-Prasad model.

The Negandhi-Estafan model proposes the Latin square design by taking two companies (and three plants) in two countries in order presumably to keep management philosophy and external environmental factors constant for two of the plants. Thus a U.S. firm in U.S.A. would be considered with its subsidiary in for example India and this would be compared with a similar but Indian firm in India (Diagram).

Presumably any differences between P I and P 2 would be attributed to external environmental factors while any differences between P₂ and P₃ would be due to differences in management philosophy.

Estafan recognized the short-comings of the above model. In the same way as with the Farmer-Richman model where a chief difficulty was identifying qualified experts who were

Negendhi and Estafan

Latin Square Design

	External Environmental	Management Philosophy	Management Process	Management Effectiveness
U.S.Firm in U.S.	E1	X1	P1	Z1
U.S.Firm in India	E2	X1	P2	Z2
Indian Firm in India	E2	X3	P3	Z3

competent enough to identify the various and rank external constraints in a given country; the Negandhi-Estafan model suffered from the requirement that management philosophy be held constant for two of the three firms in the unit sample space, while all external environmental variables are held constant for two of the three firms in the unit sample space. Clearly the assumptions that firms operating in the same country are under exactly the same environment and that parent firms and their subsidiaries in different countries have the same management philosophies cannot be taken for granted to put it mildly.

An additional difficulty is the requirement that all three firms in the unit sample space produce the same product or product mix, be of some or similar size and that the two firms in one country hire from the same labour pool and sell in the same markets.

Estafan later proposes a modification of his model with Negandhi in his "system transfer characteristics" model (1970)³¹, but his model has not found much application.³² Negandhi and Pro~~s~~ad modified the original Negandhi-Estafan model in line with some of Estafan's later concepts.

The assumption of similar management philosophies between parent firm and its subsidiary was abandoned. Manager's perception of the external environment was also considered more significant than a general listing of external environmental factors. The number of variables in the model was also increased from three to five. The inter-

relationship of the five Variables in the model is shown in the Diagram.

Although reverse interrelationships are recognized to exist only one way relationships were investigated.

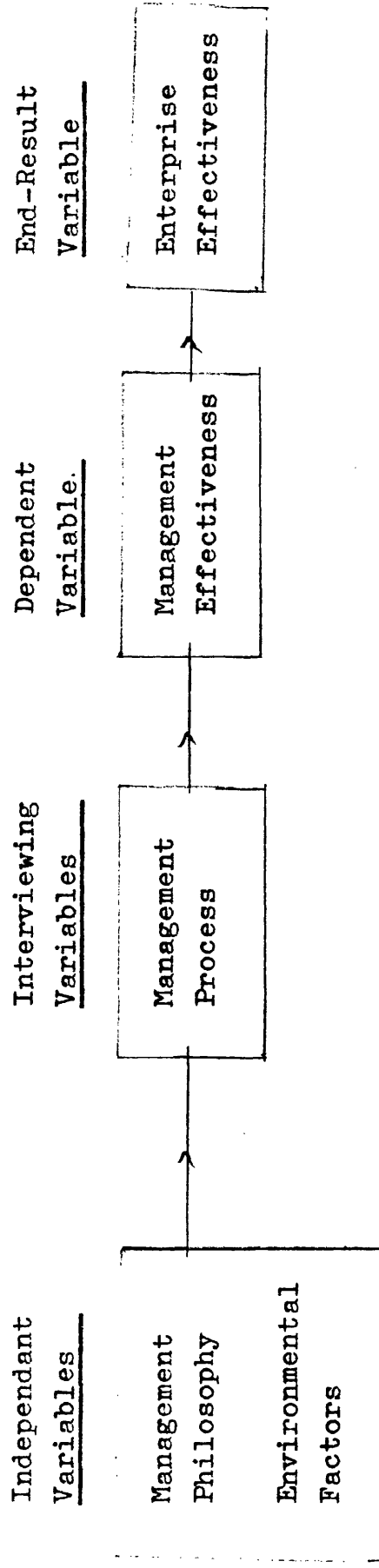
The concept of 'management philosophy' and 'management process' was retained in the Negandhi-Prasad model, and the "process school" approach to the managerial process was preferred because:

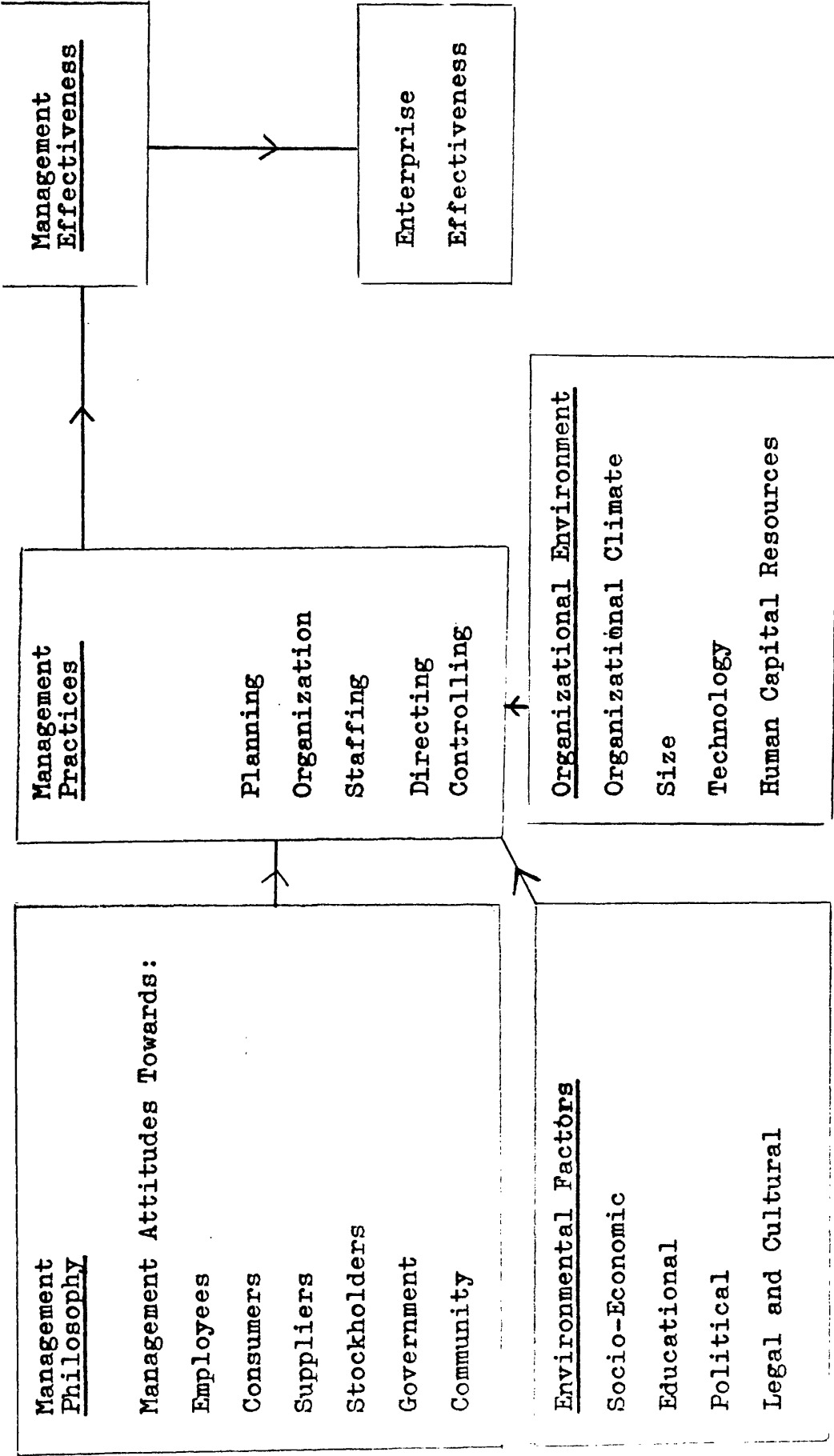
- (1) It would best facilitate query and inquiry as well as response from practicing managers; and
- (2) The data could be used as the intervening variable.

Negandhi and Prasad, however, recognized and incorporated many behavioural concepts of management both as intervening variables and, more significantly, as dependant variables.

Much emphasis was placed on 'management philosophy' in the model considered to be management's policies, values and practices toward's employees and external agents - because it was felt that if the environmental and cultural factors were the sole determinants of management practices and effectiveness, as argued by some one would find close similarities in comparable industrial enterprises which is not the case. Negandhi and Prasad contend however that evidence is available about the influence of management philosophy in management practices and effectiveness.

Negandhi and Prasad





The concept of management philosophy was later equated with the task environment in Negandhi's integrated concept of the three environmental layers - societal environment, task environment and organizational environment.

A new concept of management effectiveness was introduced in the model with behavioural measures being separated from economic measures and emphasized; reflecting the success of an organization as a social system.

Economic measures of effectiveness was classified under enterprise effectiveness and largely ignored for the following reasons:

- (1) the extreme difficulty of obtaining reliable data.
- (2) the peculiar economic conditions prevailing in many developing countries which obscure measures of enterprise effectiveness in the accepted economic or monetary terms.
- (3) the non-comparability of ^{samples} taken across national boundaries in most cases. and ;
- (4) the author's desire to emphasize the interaction patterns, and the effectiveness of people and their sub-groups in organizations.

Personal interviews were used to collect data on management philosophies, processes, practices and affectiveness.

Structured and non-structured interview guides were prepared. A summary of the guide is shown in Appendix. Management philosophy was deduced from non-directive interviews with top executives and managers, mostly in groups, and actual policies and practices were judged by researchers.

An attempt was made to establish casual relationships between management philosophy on the one hand, and management processes and management effectiveness on the other. For this purpose an index was developed for the overall company philosophy with respect to each agent and weighted in favour of some agents.

The responses to the other factors were also placed on simple 3 - 5 point scales and because of the small sample, comparative frequency statistics rather than statistical analysis of data were presented.

Comparisons were at three levels: at the national level (U.S. subsidiaries in India compared with comparable local firm in India); at the international level (comparing management processes and effectiveness between U.S. subsidiaries with those of their local counterparts in each of the five developing countries); and most importantly to the authors, on the basis of management philosophy. The research was conducted in America on the

one hand and Argentina, Brazil, India, Phillipines and Urugnay on the other.

In more recent times, Negandhi has conceptualized the environment as being of three layers (see earlier).

CHAPTER V:

OUR RESEARCH APPROACH

V.1 Introduction

As a national of Saudi Arabia, a country in many ways still 'developing', we were not unnaturally concerned with its economic and general development. As past students of economics we had been impressed by Harbison and Myer's work 'management in the industrial world', particularly their emphasis on the vital role management can play in economic development.

A logical step forward for us was therefore to seek a greater understanding of the management field at the Bath University Business School where Comparative Cross-national Management work was being conducted. Since we were more interested in the practice or reality of management rather than theory and having experienced living in different cultures (Egypt, Saudi Arabia, Turkey and Britain) we found the concepts of comparative cross-national management (as pioneered by Farmer and Richman particularly their recognition of the influence socio-cultural and legal-political environments can have on management practice and behaviour) more appealing. We were certainly aware of the significant contrasts in people's behaviour in different countries and hence the idea that this should also consciously or sub-consciously reflect in the way people manage in organizations did not

appear to us as unrealistic.

Our initial general objectives were thus to seek confirmation that managerial practices are affected by and differ with the societal environment, that some patterned differences should therefore be observed to exist between management in Saudi Arabia and comparable British firms and to describe such patterned differences and that by implication the transfer of management know-how requires an understanding of and an adjustment for differences in the environment. It was also hoped that the study would identify some of the significant environmental constraints to effective management particularly in Saudi Arabia.

Additionally we hoped for an identification of probable universal concepts, and, if possible, the degree of success in assimilating imported western managerial concepts and techniques to the Saudi environment. An indication of possible future management trends in Saudi Arabia was also hoped for.

The objective of any study ought to dictate the research design. The choice of workable comparative management research frameworks was limited however and we found it convenient to adopt the Negandhi-Prasad investigative framework, using case study pairs, as modified by Abouna A.Y. Our own modification was limited to dropping the production enterprise function since our study was not production or technology-oriented.

For a single researcher to investigate the full range of

variables in the Farmer-Richman or Negandhi-Prasad models would be a very complex and time-consuming endeavour. Selectivity if possible would seem therefore to be preferred.

We thus proposed highlighting only those management functions offering greatest cross-cultural contrasts and of critical importance to the success of management particularly in Saudi Arabia. The overall investigative effort was however comprehensive in that the Negandhi-Prasad research investigative guide was used systematically in the following areas: Basic company information, interactions between the firm and external 'task' agents, organization, planning, control and manpower management.

An initial intention to measure the effectiveness of management was later abandoned owing to problems of measurement.

The Delphi technique as modified by Farmer and Richman for identifying environmental constraints to effective management was used as the first step to the investigation; partly for the generally useful information it may give on Saudi environmental constraint but primarily to identify the major weaknesses in the Saudi environment as a guide to the later selection of specific management function or functions to highlight in the Negandhi-Prasad case-study pair investigative approach.

The author's background includes the study of economics as an under-graduate, a director of a Saudi trading corporation,

financial and business editor of a national Saudi business daily newspaper and currently as editor-in-chief of the same newspaper and board director of the parent publishing group.

It was hoped that a descriptive case-study approach in this context without attempting much analytical interpretative work would not only be more realistic but also, hopefully, serve as welcome addition to the data base on Saudi Arabia. Not unnaturally the emphasis of the study was on Saudi Arabia.

V.2 The Farmer Richman Delphi Technique for Environmental Constraints

2.1 Farmer and Richman's concept of the external environment was referred to in earlier chapters. Their 'external environment' coincides with the 'societal' environmental layer as visualised by Negandhi in his integrated concept. In the Farmer-Richman concept the external environment consists of educational-cultural, sociological-cultural, legal-political and economic components. Each of these components consists in turn of sub-components or constraints. Thus the educational-cultural component would include for example; attitudes towards education, and the degree of successful educational match with requirements in the country concerned. These so-called environmental constraints can have either a positive or a negative effect - depending on their nature-on the efficiency of internal management practice in a given country. Thus a positive attitude towards education and a good educational match of graduates with a country's requirements would appear to have a beneficial effect on management practice in a given country since management everywhere not only needs educated people but also the right kind of educated people for the advancement of its objectives.

Farmer and Richman considered it useful to identify, classify and list all the possible environmental constraints that can affect management practice. The weakness in the Farmer-Richman concept was discussed in earlier chapters, particularly the danger of ending-up with a statement saying

nothing more than 'everything depends on everything else'.

However we did consider it useful to attempt to identify and rank quantitatively the environmental constraints of significance in Saudi Arabia before commencing our research case studies so that a preliminary picture of the significant environmental constraints operating in Saudi Arabia can be obtained.

In the pursuit of this we have adopted the Farmer-Richman approach utilizing the Delphi Technique as applied to environmental constraints (see 2.2). Clearly the mere identification of significant environmental constraints would be useful but to know exactly which of these is more important and by how much would be a better guide still. If all the environmental constraints could be rated quantitatively it would also be possible to pinpoint weaknesses in a given country.

Thus although the quantification would be somewhat imprecise, the actual statement of what is important can lead to debate about the necessary corrective measures. Policy implications could thus emerge from such an exercise.

Thus the possible advantages to be gained seem to make some effort at quantification worthwhile; however the difficulties of precisely measuring such aggregate variables must not be underestimated. The difficulties of quantification include the following:

- 1) All of the constraint variables are highly aggregative

and are thus subject to various loss of detail when applied to specific situations. An example cited by Farmer-Richman is that while it may be true that a given country has poor view of managers; it may be that various sub-cultures in the country hold the opposite view of managers and at times even a small minority opinion from a small but high achieving minority group may be enough to carry the country forward economically. Thus a view based on the average opinion of the country - and consequently the majority view - may not be indicative.

2) In many countries two or three major social blocs may exist - the dual economy familiar to economists - the traditional, peasant, or bedouin sector, the modern sector and the sector consisting of the interaction of the two. Any sociological scores for instance would be wrong since the average lies somewhere between the two major sectors, however firms operating in either sector face local problems not average ones.

3) Furthermore some constraints particularly sociological ones are quite difficult to quantify, with finer gradations between phenomena examined being particularly difficult to establish.

4) It is never clear that a perfect score on any constraint should be given the difficulties of evaluating such complex material. Presumably any country could still make improvements on any constraint.

For the above reasons, the constraint scores are generally

open-ended, no country being perfect and improvements always being possible.

5) Some of the constraints are relatively passive and static while others are quite dynamic and subject to rapid change. A country's evaluation thus changes at different rates (some constraints for Saudi Arabia have changed while the study was being conducted) - legal constraints can for example be changed in a matter of months.

Virtually all constraints are subject to change, although the difficulty of making change differs.

Here a careful evaluation of how difficult change is can serve as a policy guide so that if there is an educational and a legal constraint it may prove useful to allocate resources for change along the lines of least resistance and more immediate return.

Furthermore all of the external constraints are inter-related to some extent. Hence a change in one starts a series of changes which ultimately affect them all.

2.2 The Delphi Technique first developed by the Rand Corporation is a method for obtaining a consensus of opinion, from 'experts', about a matter not subject to precise quantification.

The technique can be used to weigh relative values of a

set of interrelated variables or to indicate which variables are critically important for future events. The intention is not to provide precise, totally accurate information about problems but rather yield key insights into the nature of crucial information in the problem. At first glance the technique seems to be merely a compilation of opinion - lacking scientific validity. However as Olaf Helmer of Rand points out, the technique is actually quite objective. The expert opinions gathered are referred to as personal probabilities which are then used as estimates of the objective probability statement.

The basic application of the Delphi Technique involves firstly identifying the experts to consider the problem at hand. The experts are men capable of evaluating - to the best of their experience - the environmental constraints which do directly influence internal firm management in a given country. They may include development economists, political scientists, businessmen who have demonstrated competence in social affairs outside their firms, sociologists and public officials dealing with major national problems and similar persons. Secondly the experts are asked independently to evaluate the problem and to give answers to the selected key questions. Thirdly, the various answers are collected by the investigator, read and evaluated and compiled. The experts are not identified to each other.

If agreement is more or less general on the answers - the experiment ends. However and more commonly a dispersion

of answers occurs. One expert may emphasize economic variables, and may highlight sociological problems and so on.

The relevant points of disagreement are tabulated, concise statements of differences are made and these statements sent back to the experts with a request for re-evaluation. The new responses are then tabulated as before and changes noted. Typically experts began to converge in their opinions.

Farmer and Richman with the aid of a group of experts derived a quantified matrix for application to any given country or region using the Delphi Technique. The Delphi Technique was applied twice, firstly to identify the variables which are the possible external constraints and secondly to determine how important relative to the other sectors, each area was. The experts were asked to weigh each area using a 250 point scale in each case. (Each sector or main component was rated about the same by all so 250 points per area were assigned in the final quantified matrix). The experts who proved useful to Farmer and Richman in the derivation of the final quantified matrix included sociologists, social psychologists, industrial executives, macro-economists, development economists and bankers. A summary of the Delphi Technique and the final quantified matrix which was utilized in our own investigation of the key environmental constraints in Saudi Arabia are shown in Appendix 1 and II to Chapter V.

V.3 The Negandhi-Prasad Comparative Framework

The investigative framework selected for describing critical elements of the management process was the Negandhi-Prasad design only slightly modified by A.Y. Abouna and ourselves. The Negandhi-Prasad design is in turn built from the methodological concepts of Farmer and Richman.

The framework interview guide itself is shown in Appendix III. Basically Negandhi's main variables were retained and the small changes introduced by A.Y. Abouna in type, number and sequence and the wording of elements and questions within them accepted.

As described earlier we dropped the production enterprise function favoured by Abouna since our study focus was more 'business' oriented. Unlike production-oriented Iraq, Saudi Arabia is more consumer-oriented at present. Manpower management which was given special emphasis in our work was considered of more cross-cultural interest particularly given its unique situation in Saudi Arabia today.

Mention was made earlier of the use of the Delphi Technique to identify environmental constraints which was the first step in our research approach. The interview guide itself consisted of a first part which included basic information about the company concerned and the interaction of the firm with external agencies. This is basically Negandhi's 'management philosophy', which was later equated

with the 'task environment'. This section was not used in the Negandhi sense of 'intervening variables' of the original model but purely as a channel or a means by which the interaction of environmental task agents with the firm can be described and as a further guide to possible environmental constraints in Saudi Arabia. The second part of the interview guide consisted of questions relating to the managerial processes of organizing and directing, planning, controlling and staffing. Staffing was expanded into manpower management and made a feature of this study. Each element of management was also investigated in terms of the possible internal and external environmental effects on it.

We agreed with A.Y. Abouna that particularly in the early stages of country studies for developing countries such as Iraq and Saudi Arabia where published material is scarce, a great deal can be gained by a systematic collection of data and a systematic "descriptive" analysis of such data. Thus our own approach was a descriptive case-study type and no serious attempt at quantification of variables and elements and their co-relation was attempted.

The difficulties in quantifying comparisons across cultural and national boundaries have already been mentioned. The network of interaction is so complex that conceptualization and measurement becomes difficult.

Negandhi and Prasad's measurement of 'management philosophy' were subjective and based on their conclusions from a large number of open interviews with senior management. Measure-

ment of the management process and management effectiveness in the Negandhi-Prasad model was based on a simple scale and is assessed by a combination of respondent ranking and interviewers averaging of the answers and the rankings of several executives in the company.

The co-relations were not considered convincing because of the very complex nature of each variable. The samples used by Negandhi and Prasad were also not sufficient for generalizations. We would agree with A.Y. Abouna that there should also be doubts about the equivalence of stimulus and response in such an international sample, involving so many variables, men, language and cultures.

We took a simple approach to data collection. Negandhi's data was collected by a mixture of respondent's definite answers, the averages of several respondents' answers and the interviewers' impression.

However our data was based on our careful understanding and interpretation of interviewee answers and our own observations. In any case problems can arise with the Negandhi approach since:

- (1) management answers are not necessarily open or objective
- (2) answers can vary between executives of similar and different levels
- (3) the answers of one or two executives are not necessarily

representative of the firm

- (4) the methodological "averaging" of the answers of several executives is not a practical proposition.

A summary of the investigative guide is shown in Appendix III.

A simple three-point answer scale for each major management function point ranging from High, Very Good, Fair or Average to Low or Poor - was utilized. In fact as previous researchers have discovered we found the interview guide more of a theoretical guide since it was not easy to follow it through particularly as the interviews were mostly open and semi-structured and the time available for interviewing limited.

The case study pairs selected between Britain and Saudi Arabia for our investigation were (after much time lost in mismatches and unsatisfactory cases) finally very approximately matched for product, size, technology, ownership and degree of success.

This is elaborated further in the next section.

V.4 The Sample

The absence of any significant British company subsidiaries in Saudi-Arabia prevented the strict application of the Negandhi-Prasad design with regard to sample pair selection.

The Negandhi approach would compare U.S. subsidiaries in country X with comparable local counterparts. Our own approach was to compare companies in Saudi Arabia with equivalent companies in Britain. Sample pairs were selected on the basis of similarity in products manufactured and/or sold; ownership, size, technology and relative degree of success. Ownership itself was confined to private versus government ownership and only privately-owned companies were considered.

Size matching of sample pairs was considered on the basis of number of employees, output or turnover. Similarity in technology of the sample pair in approximate terms was also sought. Finally the sample pair were matched approximately in terms of relative degree of success in the specific industry or general business sector.

Needless to say achieving equivalence or satisfactory matching of sample pairs was difficult to achieve for a number of reasons, but mainly due to the significant differences between the two countries and the different characteristics of companies in the two countries. There are large gaps in the stages of industrial and business development between Saudi Arabia and Britain that hardly need elaboration; and this naturally makes matching like

with like somewhat difficult. In terms of company characteristics; U.K. firms are inevitably larger than Saudi firms making or selling similar products and size matching of sample pairs was particularly difficult. U.K. companies also tend to utilize more advanced techniques tools and technology except interestingly enough in odd cases where U.K. unions have resisted new technology as in the U.K. newspaper industry (in this particular instance the Saudi newspaper was using more advanced technology than its U.K. counterpart. A reflection of the different labour environments of both countries). A list of potential U.K. and Saudi companies for investigation was drawn up. Letters were sent out inviting companies to cooperate with the research. The response in the U.K. was better than that in Saudi Arabia.

Not only was the choice very limited in the case of Saudi Arabia, as it is a relatively new country, but most Saudi companies either declined for fear of competition or loss of confidentiality or simply because their management did not appreciate or see any need for co-operation or were rejected by us when it became clear co-operation would be very limited to public relations material. In fact the only Saudi companies we were able to investigate were those we contacted through relatives or friends who were able to strongly vouch for the researcher.

Although seven pairs of companies were attempted only four or five were considered satisfactory enough for incorporation in our work.

The final satisfactory pairs investigated and incorporated in the main management process study certainly represent a limited sample and no claim is made for any statistical significance from them.

However some patterns and environmental 'constraints' did become apparent among the sample pairs. Manpower management was emphasized since it is the most critical management problem identified in Saudi Arabia today. Comparative analysis material and secondary sources of information were utilized. Research on Saudi Arabia is relatively limited in the business and management field and it is hoped that this mainly descriptive study would add to the data base on this country.

Table: Sample pair characteristics

Industry of business	Saudi Company	British Company
Cables	Saudi Cable Co., Cable company	Stirling Cable Co., Cable company.
Newspapers	Saudi Gazette, Newspaper.	Western Daily Press, Newspaper.
Printers	DAR OKAZ, Printers.	Robert Skockwell, Printers.
Car Importer	PONY (KOREAN) (SHOBOKSHI Group) Car importer	TOYOTA (Great Britain) Car importer

Approximately Ownership, product,
matched in: size, technology, success

V.5 The Data

Data were collected from all levels of management but the chief executive and senior managers were specifically sought where possible.

Although the investigation guide was useful as a checklist we found it more conveniently kept under a low profile to facilitate the process of interviewing. A semi-structured approach was used. Thus primary data was collected by means of the investigation guide written questionnaires and personal interviews. Company publications and information material as well as industry or/sector business literature were also made use of as background information. Visits to individual companies ranged from two to eight visits over one to two week periods. Each visit lasted from about two hours to a whole day.

Brief notes were made during the interviews which were later expanded after each visit was over. In writing to companies for authority to conduct the research we found it necessary particularly in the case of the Saudi companies to promise them confidentiality of research.

Secondary data on management, comparative management, economic development and management transfer from a number of sources including newspapers and periodicals was utilized for general appreciation of the field. Useful Business and Economic data on Saudi Arabia was more difficult to obtain being either non-existent in the recognized formats

or of difficult access, but much use was made of newspaper and magazine articles as well as various government, company and banking handbooks in Saudi Arabia. Use was also made of the researcher's own observations and practical experience of Saudi Arabia. A separate volume on the political, business and economic environment of Saudi Arabia has been included for two main reasons; firstly to add to the data based on Saudi Arabia for other researchers wishing to study aspects of that country and secondly to facilitate a better understanding of the Saudi environment for a reader of this work.

V.6 Summary of Research

1. Part I titled 'Saudi Arabia - the political, economic and Business environment' was completed to serve as a background volume on Saudi Arabia for the benefit of the reader of this work. However we also hope it will offer future researchers on updated general reference on Saudi Arabia.
2. Part II consists of:
 - a) An overall review of the comparative cross-national management field with its emphasis on the external environmental effects on management practice (Chapters I - IV).
 - b) Our research approach (Chapter V) which consists of:
 - i) The Farmer-Richman Delphi Technique for environmental constraints identification (to help pinpoint major areas of weakness in the Saudi environment).
 - ii) The Negandhi-Prasad comparative case-study investigative approach for a cross-national description of (a) company inter-action with external task agents and (b) basic management functions (organizing and directing, planning and control and manpower management) as practised in Saudi and British firms.

Results from the Delphi questionnaires and the preliminary part of the Negandhi-Prasad investigation guide (company interactions with external agents such as owners, government, community, customers and suppliers) were used to indicate the management function or functions suffering most from environmental constraints in the context of present-day Saudi Arabia and therefore most worthy of special emphasis. This was important since the time factor and the logic of the investigation if meaningful results were to be sought dictated selectivity and the emphasis of only major critical areas for closer examination. This led to the selection of the manpower management function as the most critical area in Saudi Arabia today. Organization, planning and control were also covered however, since they also showed significant cross-national contrasts.

Four final company case-study pairs were investigated and are shown in Appendix.

c) Our research results consisted of:

- i) results of the Delphi investigation (Chapter VI).
- ii) comparative descriptive analysis of the results of the case-study pairs covering interactions with external agents (Chapter VII) organization

(Chapter VIII) and planning and control (Chapter IX). The manpower situation in Saudi Arabia and the manpower management function as practised by companies in our sample case studies then followed (Chapter X).

- iii) conclusions, and constructive views on the investigative approaches (designs) used (Chapter XI).

Appendix I (Chapter V)

1. Summary of the general Delphi Technique.

Steps to be taken in applying the technique

Step 1. Define the problem to be solved

- make the answer quantifiable wherever possible.

Step 2. Determine areas of expertise which bear on the problem

- these can concern the total problem or sectors of it.

Step 3. Select experts

Must be: of good record and performance;
rational, objective, impartial;
available 2 - 4 months, and must be
willing to participate.

Step 4. Contact experts by person or letter

Explain: a) the total study being done;
b) the central problem being considered;
c) the role they will be expected to
play in solving the problem
(responding to questionnaires etc.)

Step 5. Prepare the first questionnaire

- restore the problem under consideration in specific

terms, i.e. request a numerical estimate of rating at this time.

Step 6. Distribute the first questionnaire.

Step 7. Analyze the results from this questionnaire.

Step 8. Prepare the information which is asked for and examine the factors which are being considered.

Step 9. Initial feedback

- feedback information that was either requested by some one of the experts or which deals with factors and considerations which are considered relevant.
- case must be taken to conceal the opinion of other experts.
- correct misconceptions about empirical factors or theoretical assumptions underlying these factors.

Step 10. Prepare the second questionnaire

- included here is a statement of how the questions appear to have broken down, i.e. list items which are taken into consideration and what these lead to.
- ask questions about their agreement or disagreement with the basic considerations listed; ask them to revise this list.
- ask for a revised estimate of the answer to the basic question.

This procedure of distributing questionnaires and controlled feedback between them is continued until the consensus is considered accurate enough to be used as an estimate for the answer to the problem.

Step 11. Correct final responses

- this can take the form of replacing some of the individual component estimates with a consensus of estimates.
- the median of the response can be used.
- some weighted overage taking into account the relative expertise of the participants can be used.
- unsatisfactory participants can be ignored.

Step 12. Apply final consensus to the original problem (in whole or in part).

Step 13. Acknowledge assistance

- in publications, allow respondents to review the final answer.
- acknowledge their assistance and identify the possible shortcomings of the method.

2. The Farmer-Richman modification of the Delphi Technique for application to environmental constraints.

Letter to Experts:

- i) From your experience and knowledge, which of the

following external constraints would you consider as having the greatest effect on the internal management process and hence management effectiveness in Saudi Arabia?

ii) How would you rank these external constraints in terms of their overall influence on management effectiveness?

iii) The questionnaire is divided into four main areas each equally weighted with 250 points. Each area is subdivided into sub-factors which have already been weighted. Please put your own score against each sub-factor thus helping in the determination of the main external constraints affecting Saudi management and by rating them, also their relative importance.

iv) The lower the assigned score the greater the presumed impediment to efficient internal management. Higher scores suggest a favourable impact.*

* Reference to Delphi Method:

- (a) Olaf Helmer and Nicholas Rescher "On the epistemology of the interact sciences" Management Science Vol. VI No. 1 October 1959.
- (b) Norman Dockey and Olaf Helmer "An experimental application of the Delphi method to the use of experts" ibid. Vol. IX No. 3 April 1963.

Appendix II (Chapter V)

The Critical Environmental Constraints

CI Educational-Cultural Variables

- CI.1 Literacy level: The percentage of the total population and those presently employed in industry who can read, write and do simple arithmetic calculations and the average years of schooling of adults.
- CI.2 Specialized vocational and technical training and general secondary education: Extent, types and quality of education and training of this kind not directly under the control or direction of industrial enterprises; the type, quantity and quality of persons obtaining such education or training and the proportion of those employed in industry who have such education and training.
- CI.3 Higher Education: The percentage of the total population and those employed in industry with post-high school education plus the types and quality of such education; the types of persons obtaining higher education.
- CI.4 Special Management development programs: The extent and quality of management development programs which are not run internally by productive enterprises and which are aimed at improving the skills and abilities of managers and/or potential managers; the quantity and quality of managers and potential managers of different types and levels attending or having completed such programs.
- CI.5 Attitude towards education: The general or dominant attitude-cultural-towards education and the acquisition of knowledge, in terms of their presumed desirability; the general attitude towards different types of education.
- CI.6 Educational match with requirements: The extent and degree to which the types of formal education and training available in a given country fit the needs of productive enterprises on all levels of skill and achievement. This is essentially a summary category; depending on the type of job involved, different educational constraints indicated above would be more important.

C2 Sociological-Cultural Variables

- C2.1 Attitude towards industrial managers and management: The general or dominant social attitude towards business and industrial managers of all sorts and the way that such managers tend to view their managerial jobs.
- C2.2 View of authority and subordinates: The general or dominant cultural attitude towards authority and persons in subordinate positions, and the way that industrial managers tend to view their authority and their subordinates.
- C2.3 Interorganizational cooperation: Extent and degree to which business enterprises, government agencies, labour unions, educational institutions, and other relevant organizations cooperate with one another in ways conducive to industrial efficiency and general economic progress.
- C2.4 Attitude towards achievement and work: The general or dominant cultural attitude toward individual or collective achievement and productive work in industry.
- C2.5 Class structure and individual mobility: The extent of opportunities for social class and individual mobility, both vertical and horizontal, in a given country, and the means by which it can be achieved.
- C2.6 Attitude towards wealth and material gain: Whether or not the acquisition of wealth from different sources is generally considered socially desirable, and the way that persons employed in industry tend to view material gain.
- C2.7 Attitude towards scientific method: The general social and dominant individual attitude toward the use of rational predictive techniques in solving various types of business, technical, economic and social problems.
- C2.8 Attitude towards risk taking: Whether or not the taking of various types of personal collective or national risks is generally considered acceptable, as well as the dominant view toward specific types of risk taking tends to be a rational process in a particular country.
- C2.9 Attitude towards change: The general cultural attitude toward social changes of all types which bear directly on industrial performance in a given country, and the dominant attitude among persons employed in industry toward all types of significant changes in enterprise operations.

C3 Political and Legal Variables

- C3.1 Relevant legal rules of the game: Quality, efficiency and effectiveness of the legal structure in terms of general business law, labour law, tax law and general law relevant to business, degree of enforcement, reliability and so on.
- C3.2 Defense and Military policy: Impact of defense policy on industrial enterprises in terms of trading with potential enemies, purchasing policies, strategic industry development, labour and other resource competition, and similar factors.
- C3.3 Foreign Policy: Impact of policy on industrial enterprise in terms of trading restrictions, quotas, tariffs, customs unions, foreign exchange, foreign aid and so on.
- C3.4 Political Stability: Influence on industrial enterprises of revolutions, changes in regime, stability or instability over protracted periods, and so on.
- C3.5 Political organization: Types of organization in constitutional terms; degrees of centralization or decentralization; degree and extent of red tape, delays, uncertainty and confusion in industry government dealings; pressure groups and their effectiveness; political parties and philosophies and so on.
- C3.6 Flexibility of law and legal changes: Degree to which relevant barriers to the efficient management of industrial enterprises can be changed and the timeliness of such changes, predicability and certainty of legal actions and so on.

C4 Economic Variables

- C4.1 General Economic Framework: Including such factors as the overall economic organization of the country (i.e. capitalistic, Marxist, mixed), property rights and similar factors.
- C4.2 Central Banking System and Monetary policy: The organization and operation of the central banking system, including the control over commercial banks, the ability and willingness to control the money supply, the effectiveness of government policy regarding price stability, commercial bank reserves, discounting, credit controls and similar factors.
- C4.3 Fiscal Policy: General policies concerning government expenditures, their timing and their impact; the general level of deficit, surplus or balance, total share of government expenditures in Gross National Product.
- C4.4 Economic Stability: The vulnerability of the economy

to economic fluctuations of depression and boom, price stability and overall economic growth stability.

- C4.5 Organization of Capital Markets: The existence of such markets as stock and bond exchanges, their honesty and effectiveness and their total impact; the size and role of commercial banking, including loan policies and availability of credit to businessmen, the existence of other capital sources, such as savings and loan associations, government sponsored credit agencies, insurance company loan activities, and so on.
- C4.6 Factory Endowment: Relative supply of capital and land (agricultural and raw materials) per capita; size and general health of the work force.
- C4.7 Market Size: Total effective purchasing power within the country, plus relevant export markets.
- C4.8 Social overhead capital and external economies: Availability and quality of power supplies, water, communications system, transportation, public warehousing, physical transfer facilities, housing and so on.

External Constraints Evaluation for Saudi Arabia

<u>Constraint</u>	<u>Weighting</u>	<u>Score of Expert</u>
<u>Educational</u>		
CI.I	100	.....
I.2	25	.....
I.3	50	.....
I.4	25	.....
I.5	25	.....
I.6	25	.....
Total CI	250	.....
<u>Sociological</u>		
C2.I	30	.....
2.2	10	.....
2.3	20	.....
2.4	70	.....
2.5	20	.....
2.6	10	.....
2.7	50	.....
2.8	20	.....
2.9	20	.....
Total C2	250	.....
<u>Legal-Political</u>		
C3.I	80	.....
3.2	20	.....
3.3	25	.....
3.4	80	.....
3.5	25	.....
3.6	20	.....
Total C3	250	.....
<u>Economic</u>		
C4.I	40	.....
4.2	20	.....
4.3	20	.....
4.4	40	.....
4.5	30	.....
4.6	40	.....
4.7	25	.....
4.8	35	.....
Total C4	250	.....
Grand Total	1000	.....

Appendix III (Chapter V)

Interview Guide - A Summary

1. Basic information on the company: Ownership, product or service, size, technology involved, labour supply, market and competition, general performance and image, history.

2. Interaction with society: Interaction with: government national and local, community, employees, owners, consumers/customers, suppliers local and foreign, distributors, competitors, outside bodies and institutions, other sources of power, influence and commitments.

- I. and 2. to be discussed with one or two senior executives. Collect company documents on this.
(All discussion throughout interviews to include policies, actual practices and examples).

3. Planning: Discussion with executive responsible for corporate or company planning or with a senior executive.

Questions concerning: A. - the significance of planning:
in general and to the company in particular.
- the clarity of company objectives and plans and their specific definition.
- the general effectivity of a managers planning practices.

B. - the resulting plans:
- major or ultimate organizational

objectives.

- the areas covered by the company's future strategy.
- the main types of plans in use, their time horizon and review period.
- how are the plans coordinated?
- effectivity of plans and planning process.
- what group or executives are involved in setting objectives, drawing up and authorizing the three types of plans given below:
 - *corporate and long range
 - *departmental, functional and medium range.
 - *operational and short range.

C. - the planning process:

- what planning assistance is provided to managers?
- what methods, techniques and tools are used during the various stages of planning?
- what are the main internal and external sources of data regularly used in planning?
- how adequate, reliable and timely is this data?

D. - main environmental factors that affect planning:

- internal factors.
- external factors.

Collection of documentation/instructions on planning.

4. Control: (discussion mainly with senior executive)

A. The significance of control

- what importance does control have in general?
- how important is it to your Company in particular?
- what does managerial control and control systems mean to your company?
- how specific and clear are your control systems, targets and standards?
- how effective in general are the managers control practices?

B. The resulting controls

- what are the key result areas normally used for control purposes? e.g., profitability, productivity . . .
- what are the main control systems in use at different managerial levels? and different organizational levels?
- what types of control mechanisms are mainly used? e.g. budgets, internal audits . . .

C. The control systems and processes

- how effectively are control systems and procedures designed and implemented?
- what control assistance is provided to the managers?
- what methods, techniques and tools are used during the various stages of control?
- how effective are feedback systems and information?
- how effective in general is corrective action?

D. Main environmental factors that affect control

- internal factors
- external factors

E. Relevant documentation on control

5. Organization: (discuss with personnel manager or senior executive)

A. Formal organization structure

- Organization chart? what are the main line, staff, and service units and subunits of your company?
- what are the main basis on which these units and subunits are classified?
- what are the main criteria for allocating new activities or functions? e.g. take the latest three additions - is it e.g. the similarity of activities etc . . .
- what are the main causes of or considerations behind the major structural changes? take actual changes within the last five years.
- how effective, if available are your organization charts?

B. Informal organization structure

- what are the main attributes of the

- company's informal structure?
- what are the main orientations binding factors of the informal group?
- C. Staff specialists and service departments
 - what are the main attributes of these specialists and departments?
- D. Committees
 - what are the main attributes of these committees?
- E. Delegation and decentralization
 - how is authority allocated to different posts specified e.g. by charts? clearly specified? . . .
 - how effective if available are your job descriptions?
 - how widely and systematically is authority delegated or decentralized?
 - what main advantages and shortcomings has decentralization been found to have or are expected to have?
 - below is a listing of the main policy decision areas; please indicate where the level of authority for each area rests e.g. top management, owners etc . . .
- F. Main environmental factors affecting
 - internal factors
 - external factors
- G. Documentation on organization

Direction, Leadership, Motivation (discuss with personnel manager or senior executive)

- what leadership styles predominately prevail at the senior, middle, and supervisory management levels?
- how competent and trustworthy do you perceive your subordinates to be?
- how successfully is change normally managed?
- what are the main motivations positive or negative employed at the operative and the staff levels?
- how effective are these motivations in satisfying employee needs and enhancing organizational effectiveness?
- what are the supervisory techniques used?
- communication structure and techniques.

- degree and extent to which communication is ineffective among personnel of all types.
- Ease or difficulty of motivating personnel to perform efficiently and to improve their performance and abilities over time irrespective of incentive types.
- degree and extent of identification that exists between the interests and objectives of individuals work groups, departments and the enterprise as a whole.
- degree and extent of trust and cooperation or conflict and distrust among personnel of all types.
- degree and extent of frustration, absenteeism and turnover among personnel.
- degree and extent of wasteful time and effort resulting from restrictive work practices, unproductive bargaining, conflicts etc . . .

Manpower management function (discuss with personnel manager)

A. The function in general

- what is the organization for manpower?
- what are the main areas of responsibility and to what extent is each area emphasized?
- what is the general attitude towards this function?
- what are the most important recent developments in your manpower management function and what are the trends?

B. Employment

- what are the main policies for the employment of staff and labour? who formulates them?
- what are the main sources of supply of management and labour? how reliable are they? and how permanent and good their supplies?
- what are the management, administrative and operative skills that are most difficult to obtain and retain? what are the main reasons?
- what are the methods and procedures used in the recruitment and selection of management and labour?
- who makes the final decision on the appointment, as well as promotion and dismissal of senior managers, middle managers, supervisors, clerical workers and labour?
- what are the main criteria used in the appointment, appraisal, and dismissal of senior managers middle managers, supervisors, clerical workers and labour?
- what are the appraisal practices?
- what are the promotion practices and also what are the dismissal practices?

C. Compensation

- what are the main systems in use for the determination of basic salaries and wages?
- list the main financial incentives offered? how effectively are they designed and applied?
- what are the main merit rating systems? how effectively are they designed and applied?
- what are the main fringe benefits? how effectively are they designed and applied?

D. Manpower training and development

- how is the function organized?

- what are the main types of training programmes on or off the job, internally or externally?
- what methods and procedures are used in designing programmes and who are involved in these processes?
- to what extent are training and development programmes evaluated?
- how do you provide for managerial succession?

E. Industrial relations

- what is the state of industrial relations in your company? how many serious disputes have occurred within the last three years?
- what are the main factors that affect industrial relations in your company?
- what are the main policies and procedures associated with industrial relations in your company?
- what are the main areas of negotiation?
- what are the main causes of disputes?
- what is the strength of labour unions in your company?

F. Main environmental factors that affect manpower management

- internal factors
- external factors

* Relevant documentation on this.

CHAPTER VI

RESULTS OF THE DELPHI TECHNIQUE INVESTIGATION INTO SAUDI ENVIRONMENTAL CONSTRAINTS

As indicated in V.2 the first step in the investigative field work was the application of the Farmer-Richman derived quantified country matrix in order to identify significant environmental constraints in Saudi Arabia. We considered the main advantage of such application to lie in the identification of key strong and weak areas in the Saudi environment vis-a-vis facilitating the practice of management. We did not consider it practical to hope for any more detailed ranking of the various constraints despite scores being given by the experts. The scores were used merely as a guide to significance.

Fifteen Delphi questionnaires to 'experts' were sent out for Saudi Arabia. Only eight completed questionnaires were returned in a satisfactory manner, which is in any case sufficient for the Delphi Technique.

The 'experts' selected were all highly-educated Saudi nationals and in fields of work allowing them a total appreciation of the Saudi environment. A footnote at the end of this Chapter gives their qualifications.

Considering the environmental constraints by the main sectors; the following observations on the respondent's

answers can be made.

Of the four environmental sectors - lowest scores were obtained on the educational constraints with an average score of about 65/250. This was followed by sociological constraints with an average score of about 125/250, followed by economic constraints with an average of about 150/250. Highest scores were obtained by the legal-political components of the environment with an average score of about 190/250.

1. Considering the education-cultural constraints area - which clearly shows up as a major impediment to accelerated progress - we can make some observations from the respondents answers:

1.1 The literacy level still reflects that of a less developed country despite the country's 'riches.' (In fact most experts have 'guessed' a 20 - 30% level, while a recent quoted in a periodical put the level at even lower (15%)*. Statistics are notoriously unreliable in Saudi Arabia (if available).

1.2 Specialized vocational and technical training has been given very low rating by all respondents. It is a major problem in Saudi Arabia. Skilled and semi-skilled Saudis are rare and the gap is being covered by expatriate skills at very high prices for such skills.

General secondary education is better. However there is

-*Business Week, December 8, 1980.

a time lag problem before such people are on the market particularly as the expansion of secondary education is of relatively recent origins.

1.3 In response to a question on the extent of higher education in Saudi Arabia as a percentage of the total population particularly those employed industry - respondents give agreed rankings of a very low order again illustrating Saudi Arabia's relative undevelopment. There are very many Saudis today in higher education at home and abroad (13,000 in U.S.A.) but again we have the time lag problem since this is of relatively recent origins.

1.4 In response to a question on the extent of special management development programmes in Saudi Arabia - respondents answers indicated that this was almost negligible - reflection of the relative youth of the country and its humble origins.

1.5 Attitude towards education in Saudi Arabia was rated very highly by all respondents. Even beduins can now see the benefits in their children being educated since better opportunities are available for the educated.

1.6 Educational match with the requirements of the country was rated poorly by the respondents again not an untypical problem in many developing countries. A common problem in the Arab world is the excess of/over skilled professionals.
unskilled

2. Considering the expert's answers to the sociological-cultural variables; the following observations can be made:

2.1 Attitude towards industrial managers and management was rated highly by the experts and this probably reflects the market economy nature of Saudi Arabia and the relative prestige of managers as creators of wealth - Business has 'good' prestige in Saudi Arabia.

2.2 View of authority and subordinates was rated very highly by the experts. The general dominant cultural attitude is to fear and respect authority and this is also reflected in management.

2.3 Interorganizational co-operation was rated poorly by the experts. There is insufficient co-operation between business enterprises, government agencies, and educational institutions. The top civil servant stated that ministries do not even co-operate with one another in a satisfactory manner, in matters of mutual concern.

2.4 Attitude towards achievement and work in Saudi Arabia was rated moderately well by the experts, although in many cases this is an average score between the different regions of the country. One expert stated: "rank the different regions of the country separately". On this basis the western region with its high-achieving minority groups (e.g. Hadramis) and its very old merchant class comes out on top followed by the central region again mainly through

the people of Qaseem and Hail. The southern region and the eastern regions then follow.

Saudis have been said to be 'lazy' by foreigners however the overall impression is that acquisition of wealth is sought after. Here the high-achieving minority group tend to compensate for the (perhaps majority?) rest of the population so that an average overall good score is achieved here.

2.5 Class structure and individual mobility was given high marks by the experts to indicate a positive effect on business and management. There is no class structure in Saudi Arabia, only some tribal loyalties, the latter being not as strong as they were in the past as tribal people move to cities in pursuit of wealth and advancement. Otherwise the only criterion of acceptability today seems to be wealth - where you come from and how you became rich does not seem to be too important anymore.

2.6 Attitude towards wealth and material gain and whether it is considered socially desirable was rated almost top ratings or full marks by the experts. This indicates that the acquisition of wealth is considered socially very desirable and much sought after. A common remark by some old-timers refers to the fact that today's society is too materialistic compared to the old times. For Business and Management however this is a positive factor in a market economy.

2.7 Attitude towards the scientific method was given a low rating by the experts on Saudi Arabia again a reflection of under development typical of an LDC if nothing else.

2.8 Attitude towards risk-taking was given a 'middle of the road' rating by the experts. Some minority groups reflect a higher ability to take risks while most Saudis prefer low risk investments such as property, gold etc.

2.9 Attitude towards change in Saudi Arabia - the general cultural attitude toward social changes of all types which bear directly on industrial performance and the dominant attitude among persons employed in industry toward all types of significant changes in enterprise operations was given a low to medium rating reflecting uncertainty to change. Modern manifestations of progress such as telephones, highways etc. are readily accepted and desired; however there seem to be confusion and uncertainty as to whether the accompanying strains on the social fabric of the country brought about by the infrastructure changes (built by foreigners) is desirable.

3. Political and legal variables

The variables in this sector gave the most positive scores for Saudi Arabia reflecting that most of them have a positive effect on business and management in Saudi Arabia.

c3.1 The relevant legal rules of the game in terms of the

quality and efficiency of the business law, labour law, tax law and so on. This has been interpreted by most experts in terms of the general overall effect on Saudi business and management and on this interpretation this variable was given high score ratings. In other words the Saudi legal structure, despite its defects in parts (e.g. dispute settling) has an overall positive effect on the smooth unhindered operation of business and management.

c3.2

c3.3 The impact of defense and foreign policy on industrial enterprises in terms of trading with potential enemies or trading restrictions etc. was given a relatively high score by experts reflecting the opinion that despite the existence of the Arab Boycott of Israel and companies working with Israel the effect or degree of enforcement of such a boycott is such that it is negligible and the total overall effect is practically free unhindered inter-national trading. (Even the political boycott of communist states by Saudi Arabia does not extend to boycotting trade with such countries).

c3.4 Political stability in terms of its obvious influence on business and economic stability in Saudi Arabia was rated very highly by all experts particularly as the same ruling family has been in power since the 1930's. (Note: this question was answered by experts before the Mecca Incident/and the overthrow of the Shah.)

Afghanistan

c3.5 The effect of political organizations in terms of the degree of centralization, decentralization, red tape, uncertainty and confusion in industry-government dealings; pressure groups and their effectiveness; political parties and constitutionality. This was given low ratings by experts who equated this with efficiency of political organizations vis-a-vis business. Saudi Arabia is an autocratic monarchy and political organizations or pressure groups are not available, unions are illegal. The government machine is beauracritic, in many parts inefficient. Business flourishes despite these facts however.

c3.6 Flexibility of law and legal changes was rated moderate. In fact the government has total flexibility if it so desires to change rules and regulations governing business. Islamic Sharia law however cannot be altered in any way.

4. Economic Variables

In response to questions on economic constraints the following was noted:

4.1 General economic framework of Saudi Arabia in terms of its possible effect on business enterprise and management. This was rated very highly by the experts reflecting the general positive benefits of a free-market economy on business enterprise and management.

4.2 Central banking system effectiveness and the effectiveness of monetary policy. This was rated very highly by the experts which is in keeping with the accepted observation that SAMA (Saudi Arabian Monetary Agency) exercises very tight control on the commercial banks and the Ministry of Finance exercises effectively very tight monetary policy when the need occurs. This is made possible by the structure of the Saudi economy where government expenditure and revenues dominate economic activity.

4.3 Fiscal policy when exercised by the government is very strong and effective since a halt in government expenditure would paralyse the economy. This is reflected in the score of experts who rate this constraint very highly.

4.4 Economic stability including the vulnerability of the economy to fluctuations and inflation was given very high ratings by the experts reflecting the relative stability of the economy (it is accepted that the confusion that resulted from the 1974 quadrupling of oil prices and the consequent high inflation - now brought under control - was a once and for all correction).

4.5 Organization of capital markets. The existence of a market for stocks and bonds, the size and role of commercial banking including loan policies and credit, savings associations, government sponsored credit, insurance company loan activities - this was given a

relatively low rating by experts. Since such activity is far from developed in many areas (e.g. no stock market, no building societies) and in some cases non-existent, this area still suffers significant weakness in the Saudi economy.

4.6 Factor Endowment in Saudi Arabia gave mixed answers with an overall medium rating. There is abundant oil wealth but very little else - no indigenous skilled human resources in the required amounts, no sufficient agricultural land etc.

4.7 Social overhead and external economics received a moderate ratings reflecting the dynamic nature of this constraint. The availability and quality of power supplies, water, communications system, transportation, public warehousing, physical transfer facilities and housing was negligible ten years ago, but is today fast developing into one of the best in the area.

Conclusion:

The very low scores in the educational variables indicate not only this to be a major weakness in the Saudi environment which would inevitably affect management efficiency but it also indicates that the manpower shortages in Saudi Arabia are not so much one of a small total population (although that is itself a fact) but the fact that this population (4.7 million) is very under-skilled and most of it is unable to participate in relative terms fully in the

modern economy particularly as women are not part of the workforce. This has immediately focussed our attention to the manpower management function and the manpower situation in Saudi Arabia for the comparative case study investigation that is to follow.

The experts include; a publishing company director (who is also a director of an advertising company), an assistant to editor for external communications, a legal advisor, a furniture company director, a maintenance company director, the assistant vice-president for marketing in the national airline, the advisor to the Minister of Health, and an editor-in-chief (all but one of the experts completed higher education in U.K. or U.S. universities).

CHAPTER VII

COMPANY INTERACTIONS WITH EXTERNAL AGENTS

VII.I Introduction

It is the contention of the comparative cross-national management school that the external environment of a firm does influence and can have a significant impact on management behaviour and practice. On the other hand it is very difficult to isolate causal relationships and identify exclusive interactions as others have discovered - hence the more descriptive nature of this study. The difficulty lies in the complex nature of today's environment and in the complex nature of the interactions between environmental and organizational forces.

Environments are undergoing rapid changes in technology, institutions, values, education and material well-being. They are also undergoing change brought about by economic, social and general national development, regional economic integration plans, increasing competition and the industrial restructuring in advanced nations through the decline of old industries and the emergence of new ones.

A firm must therefore be able to adapt to its changing

environment. The extent of such adaptation will vary with the need and with the stringency of the environmental constraints. Organisations have always been connected with their environments through such agencies as people, material supplies and output deliveries. However, although an organisation can transmit to its environment as well as receive from its values and other influences, environmental systems are generally more highly affected by historical, cultural and political developments within than they are by micro-organisms, such as firms inside particular systems.

Whereas Western firms about a hundred years ago were mainly influenced by capital, employees and customers (with government and religion weakly on the side), today's complex society has many more parties or interest-groups exercising their separate socio-economic influence both on the firm as well as on other interest groups. Similar interrelationships can be expected in non-western countries where several groups maintain independent influences on each other and on the organisation.

Finally a comparison of the development of economic and business systems among advanced nations would clearly show the influence of the different societal environments. The differences are related to differences in the historical backgrounds of business institutions and activities, present forms of business ownership, forms of government, types of customers, nature of markets, types of labour and the varied attitudes to management

science, innovation, technology and social responsibility.

In a similar way less developed countries display many variations in the way their economic and business systems developed through their different histories, social, political, and cultural structures, attitude and values and through their different capacities for business.

It is thus more or less inevitable that business systems and practices should differ around the world through different interactions with different environments.

The following analysis examines the interactions with external agencies of firms in Britain and in Saudi Arabia.

VII.2 Interaction with Owners

A company's interactions with its owners is a function of a number of factors which include the type of ownership (e.g. private or state shareholdings, single individual, large corporation, multinational, institutional), company background (history), company characteristics (e.g. size, technology, markets, extent of diversification, decentralization, strategy), company performance (e.g. profitability, control requirements), company management (e.g. their performance, practices, traditions, personal attitudes), owner characteristics (size diversification, established policies and practices etc.) and national,

regional or industry-wide climates on business and other issues.

The final four pairs of case-studies covered British and Saudi newspapers, cable companies, printers and car importers.

Although the effort was made to match the companies as much as possible in terms of size, technology, product and ownership, the limitations of the different conditions in the two countries, particularly the different stages of economic development, inevitably made direct comparisons more difficult. Nonetheless certain significant patterns and variation have been observed regarding company interactions with owners among the four pairs of companies.

1. We noted that personalities and personal relations play a far greater role in the interactions between top company management and the owners, in the Saudi companies compared with the British companies. This can be seen in the Saudi car-importing agency, the printing company and the newspaper where the top executives in all three cases were either previously personal friends of the owners or were related to them in some other way. Only the Saudi cable company owners had objectively appointed a professional managing director with previous cable experience: even here though the vice President for business affairs was a personal friend and classmate of the Saudi chairman at an U.S. University. This can be

attributed to the fact that the Saudi cable company is the closest of the Saudi companies to an American management system (as a large U.S. cable producer and a major U.S. Oil company own 40% of the stock). Such personal ties or relationships were not observed to be paramount or very significant in the equivalent British companies.

2. More effective control by the owners was observed to exist in the British companies. The U.K. cable producer, the U.K. printer, the U.K. car importer and the newspaper all operated under strict financial reporting control systems to their board or owners at fairly regular intervals. Such reports or financial control systems in the Saudi firms were observed to be either irregular, adhoc or limited to the annual report. Only the Saudi cable company with its American managing director, its 40% American ownership and its U.S. management system proved an exception to this.
3. More effective control by the owners of British companies was also coupled with a fair degree of autonomy in the operation of the companies. The opposite was observed to exist in three Saudi companies in that owners were liable to interfere in day-to-day operations when they so desired although this was not observed to be too frequent. Effective general and financial control as practised in the U.K. firms was lacking however.

4. An interesting observation illustrating a unique phenomenon in Saudi management and business organisations (and elaborated further on under the manpower section) is the fact that three of the four Saudi companies have expatriate chief executives (only the chairman being Saudi in each case). In the fourth case (Newspapers) the post of the Saudi editor-in-chief was not an easy one to fill and the choice of a Saudi was dictated more by government regulations rather than the easy availability of Saudis.

Probable environmental factors responsible for the observed differences in company-ownership interactions include:

1. The greater role and importance in the Arab Socio-Cultural System of personal considerations in the recruitment of and interaction with top company managers. This is also reflected in greater top executive personal loyalty, obligation and commitment to the owners as specific persons and less identification with or loyalty or responsibility to a faceless organization.
2. A large gap exists - despite the recruitment of supposedly professional expatriates-in many Saudi companies between their appreciation of basic management concepts and skills and utilization of modern management tools and techniques when compared to British companies. (Many of the expatriate top

managers either come from similar third world Arab countries or are Westerners who are not necessarily the best the West can offer, (some Westerners who were unable to succeed in their own country have ended up in Saudi Arabia). This lack of appreciation of management concepts includes basic concepts of delegation, decentralization and the distinction between authority, power and control (often confused by Arab managers). The extent of company interaction with, and commitment to owners, is summarized for the sample in Table .

VII.3 Interaction with Government

1. The main significant pattern here is that all the Saudi companies seem to have more unhappy interactions with government mainly through inefficient government bureaucracy, the need to import expatriate labour, and to clear goods through customs. The amount of red tape involved, the excessive delays etc. all demand an extreme amount of patience. Dealing with Saudi government departments can thus be a constraint to management. The law on the importation of workers changes frequently and the excessive delays in processing applications for permission to import them by Saudi companies ends up costing the companies a great deal of money.

Since nearly all the employees in the U.K. firms observed were British this problem does not arise in

the U.K.

2. There is no taxation by government on Saudi firms unlike the case in the U.K. but see Part I on Saudi Arabia.
3. In all the Saudi companies employer/employee relations are ultimately regulated by the government labour law unlike the observed cases in the U.K. where unions are primarily responsible for this area.
4. In both the U.K. and Saudi Arabian companies there were routine government regulations covering factory inspection, health and safety, planning permissions etc.
5. Surprisingly, no training levy and training grants 'interaction' with government was observed in the Saudi companies, - unlike U.K. situation.
6. Saudi manufacturers (e.g. Saudi cable company) are able to take advantage of generous 50% interest free financing from government and an advantageous 'buy Saudi' order to government departments (even if their products prove slightly more expensive than imported goods) This was not observed in the U.K. though some such protection may arise 'unofficially'.

All the observed and above mentioned differences can be attributed to environmental factors which include:

1. The need to control the numbers of foreigners and security - screen expatriates for work in Saudi Arabia. The need to import manpower itself is caused by the overall manpower shortage and the great shortages of required skills among Saudis.
2. The taxation structure relates to cultural-religious factors since only an Islamic Zakat tax is payable by Muslims at 2½% of liquid assets and Saudi Arabia operates by Islamic rules (the availability of vast quantities of oil has made the application easy).
3. The existence of a labour law and the lack of unions is related to the anti-union and free enterprise stance of the government. The labour law however is considered comprehensive enough to protect both employees and employers.
4. The absence of a training grant system can be related to the lack of proper manpower planning.
5. The generous financing terms by the government industrial bank and the 'buy Saudi' policy can be related to the need to encourage Saudi industry to stand on its feet - an important necessity in a developing country - the U.K. firms on the other hand exist in a developed economy which has over time learnt to survive and compete.

The degree of interaction with government is shown in Table .

VII.4 Interaction with Industry and Competition

1. With both the U.K. and the Saudi companies examined we found a fair degree of competition in their markets. This was as expected since both the U.K. and Saudi Arabia are free-enterprises countries. Market shares are jealously guarded.
2. The most significant pattern observed here was that all the British companies belonged to an industry association where interactions and communications with their competitors and the industry were made possible. This was clearly lacking in every Saudi company case and no direct industry or competitor interaction was observed. The environmental reasons for this are mainly related to the fact that Saudi industry or business is still in its infancy compared with the U.K. and lacks the confidence to exchange information. The fact that most associations in Saudi Arabia need government approval may also be an inhibiting factor.

VII.5 Interaction with Community

1. Very little interaction with the community was observed in the Saudi companies (other than with the newspaper through its pages) while the degree of British companies community interactions varied; only the British cable company and the newspaper can be said to be heavily involved with the community.

The lack of community interactions in the Saudi companies can be attributed to:

- a. All the Saudi companies examined have over 95% mixed expatriate employees from other countries.
- b. Lack of appreciation - brought about by lack of sufficient social responsibility awareness - of the benefits of community interactions.
- c. Physical and cultural isolation of the companies (with the predominance of foreigners) from the community.

In the U.K. only the cable company is heavily involved with the local community since almost all its employees came from the local area and the inherited tradition is one of a paternalistic company.

A summary of the rating in community interactions is shown in Table .

VII.6 Interactions with Distributors and Customers

Interactions with distributors and customers are more or less a function of the kind of business the company is in and the nature of its activities as well as the management philosophy and is thus less environment-dependent. Among relevant factors here are, nature of products, markets to be served, nature of competition and

customers etc.

1. The Saudi car importer sells in Jeddah direct and there is no dealer network in the country. There are other branches in Dammam and Riyadh. Servicing is by the main importer. This is not untypical of Saudi car importers and relates to both organizational and market size limitations. The U.K. car importer however operates through 270 dealerships. The Saudi cable company also sells direct mainly to government and semi-government agencies. The U.K. cable producer sells through U.K. wholesalers as well as direct to customers. The Saudi printer sells direct and so does the U.K. printer:

The Saudi newspaper sells through its own national distribution network whereas the U.K. newspaper uses its own transport company only within city limits but uses the national wholesale network for neighbouring towns and countries.

2. The U.K. companies have been observed to have a better feedback interaction with customers than Saudi companies. Saudi companies were either not interested or not capable of maintaining a feedback monitoring system. Many Saudi companies are successful due to a sellers market situation rather than due to any extraordinary management effort. (In many cases they are therefore profitable despite 'bad' management).

VII.7 Interaction with Suppliers

1. In the case of the Saudi companies, the printers take a short-term profit maximization view and seek cheapest prices from suppliers of paper, machinery and spares. The newspaper suffers from spare parts and wire machinery problems. Spares are difficult to get for some of the older machines. The cable company buys copper on the London metal exchange while the supply problems of the car importer are looked after by the Korean car manufacturer.
2. For the U.K. companies we observed that the printers and the newspapers placed equal emphasis on reliable quality suppliers as well as price. The U.K. cable producer also buys copper on the London metal exchange while the car importer has no supply problems but some friction with the government over the scale of Japanese car imports into the U.K.
3. The main pattern that was observed here was the greater emphasis placed by British firms on reliability and quality of suppliers in addition to price, while price seemed to feature more strongly as the main criterion with Saudi companies.

A summary of company interactions with suppliers is shown in Table .

Company Interaction with External Agents

	News-Papers		Cables		Printers		Car Importers	
	UK	SA	UK	SA	UK	SA	UK	SA
with Owners	1	2	2	2	1	2	2	2
with government	1	3	1	2	1	3	1	2
with industry and competition	2	1	2	1	3	1	3	1
with community	3	2	1	1	3	1	1	1
with distributors and customers	3	2	3	2	3	2	3	1
with suppliers	3	1	2	1	2	2	3	3

3 = High, strong, good

2 = Moderate

1 = Low, weak, poor.

CHAPTER VIII

Organization

VIII.1 Introduction

A manager must be an organiser for unless he organizes the work of his subordinates, they will be getting in one another's way and even counteracting one another's efforts. The way a manager organizes the work of his subordinates has a great deal to do with the effort they put into their jobs¹.

A fundamental definition of organisation is given by James D. Mooney, Vice President of GM in his book 'The Principle of Organization'².

"Organization is the form of every human association for the attainment of a common purpose".

The subject of organization has been dealt with by writers from many different groups and hence has a tendency to suffer from the "On looking at an elephant" syndrom, i.e.: what you see depends on where you stand.

Practitioners of management may have a different view from theorists, the classicists differ from the organisation theorists and the behavioural scientists; the economists differ from the business administration scholars and so on. The matter is further complicated by the fact that organizations, can vary a great in the nature of their functions (economic, technological, social, political etc.) the nature and complexity of their objectives and the nature and diversity of their products, their size, their geographical dispersion etc.³

In what follows, use has been made of writings on organization by Koontz⁴, Litterer⁵, Etzioni⁶ and W.G. Scott⁷.

Three main theories of organization are having considerable influence on management, thought and practice, arbitrarily labelled by W.G. Scott as the classical, neo-classical and the modern.

1) The classical doctrine can be said to deal almost exclusively with the anatomy of formal organization. It can be traced to Frederick Taylor's interest in functional foremanship and planning staffs. However, the first comprehensive attempt to find organisational universals in the U.S. is dated 1931 when Mooney and Reiley published "onward industry"⁸. More recently the works of Brech 'organization'⁹ and Allen's 'Management and Organization'¹⁰ are in the classical vein. Classical doctrine is built around four key pillars, namely the division of labour, the scalar and functional process, structure, and spans of control.

a) The division of labour is the cornerstone among the four elements¹¹. (b) The scalar and functional processes deal with the vertical and horizontal growth of the organization respectively¹². The scalar process refers to the growth of the chain of command, the delegation of authority and responsibility unity of command and the obligation to report. The division of an organization into specialised parts and the re-grouping of parts into compatible units are matters pertaining to the functional process. This process focuses on the horizontal evolution

of the line and staff in a formal organization. (c) Structure is the logical relationship of functions in an organization, arranged to accomplish the objectives of the organization efficiently. Classical organization theory usually works with two basis structures, the line and the staff. However such activities as committees and liaison functions are also included in structural considerations¹³. (d) The Span of Control concept relates to the number of subordinates a manager can effectively supervise. Graicunas has been credited with first elaborating the point that there are numerical limitations to the subordinates one man can control¹⁴. Wide spans yield a flat structure; short spans result in a tall structure.

Thus the classical doctrine concentrates on the formal anatomy of organizations, and somewhat neglects or underemphasises the human or behavioural issues and problems. Furthermore, nothing more than the barest mention is given to the concept of the informal organization.

The Neoclassified theory of organisation embarked on the task of compensating for some of the deficiencies in classical doctrine and is commonly identified with the Human Relations Movement. The main pillars of the classical school are accepted but modified for the

impact of human behaviour. The existence of a social system and an informal organization plus the effects of the latter on the formal organization are recognised and systematically discussed. The origins of the approach can be traced to Elton Mayo and the Hawthorne experiments of the 1920's and 1930's.¹⁵ Current examples of the neoclassical approach are found in human relations books like Gardner and Moore¹⁶, "Human Relations in Industry" and Davis¹⁷, "Human Relations in Business". To a more limited extent, work in industrial sociology also reflects a neoclassical point of view¹⁸. The neoclassical school of organization has been called bankrupt, however and the approach suffers from criticisms of human manipulations, incompleteness and lack of integration among the many facets of human behaviour.

Modern organization theory and systems concepts have made a move to cover the shortcomings of the current body of theoretical knowledge. Here the organization is treated as a system of mutually dependant variables. The approach as a conceptual analytical base, relies on empirical data and has an integrating nature. There is no unified body of thought, but most analysts look at the organization as a whole and as system of inter-related parts.

Representative works in this field include March and Simon's "Organizations"¹⁹ and Haire's anthology, "Modern Organization Theory"²⁰. Instead of reviewing writers contributions we follow here W.G. Scott's overview discussing the various ingredients involved in system analysis. They are the parts of interactions, the processes and the goals of the system.

The five basic parts of the system include the:

- a) individual and the personality structure he brings to the organization;
 - b) the formal organization;
 - c) the informal organization;
 - d) fourthly is E.W. Bakke's fusion process²¹ which is largely concerned with the modification of role expectancies - acts to weld divergent elements together for the preservation of organization integrity, and
 - e) system analysis of the physical setting in which the job is performed.
-

In the physical surroundings of work, interactions are present in complex man-machine systems. Machines and processes should be designed to fit certain generally observed psychological and physiological properties of men, rather than hiring men to fit machines^{21.5}. All these five parts are woven into a configuration called the organizational system.

All the parts mentioned are inter-related. In systems theory an attempt is made to analyze the processes by which the interaction is achieved. These processes are communication, balance and decision-making. The goal of organization is seen by W.G. Scott as basically three which may be either intermeshed or independant ends in themselves. They are growth, stability and interaction. The last goal refers to organizations which exist primarily to provide a medium for association of its members with others. Modern organization theory and general systems theory are similar in that they look at organization as an integrated whole. They differ however in terms of their generality. General system theory is concerned with every level of system whereas modern organizational theory focuses primarily on human organization. Thus we see that a formal structure is recognized as necessary, by all schools of thought, in order to organise and coordinate all the tasks and people

involved, and to ensure that their total efforts and achievements as a group are greater than their efforts and achievements as individuals.

A formal organization has formal objectives and the structure of such an organization is so designed so as best to achieve the objectives.

Specialization or division is also characteristic of a formal structure this defines authority and responsibility both horizontally and vertically. According to the type and nature of the company, departmentation may be on the basis of products, processes, territories, types of customers, functions or a combination of any of these. Activities are based on vertical levels and spans of control are restricted. Distinction is made between line and staff sections/departments. Integration and coordination is also necessary for maximum effectiveness and this can be done by managers. Size and spans of control do influence this area.

Authority which is the right to command, direct and control others is also a feature of a formal organization, distinction is often made between formal authority and functional authority²² or between administrative authority and professional authority. Other questions also arise

with respect to authority such as the distinction between power, authority, control and influence²⁴ and the question of compliance²⁵.

Delegation and decentralization of authority is also a feature of a formal organization²⁶. Its existence depends on a large number of factors and is also related to organizational size and complexity, type of functions and extent of geographical dispersion.

The relationship between delegated authority and responsibility is also important since ultimate responsibility cannot really be shed even if delegated and hence the extent of delegation must be examined. The formal structure of organization also includes such matters as the organization of the board of directors and line-staff and line-service relationships, committees and communication.

Finally some elaboration is in order regarding the informal organization or structure. People inhabit the organization. Individuals are subject to human behaviour and personal goals which may not be in line with the assigned process and goals. Their informal behaviour is

not necessarily capricious or disloyal but mostly follows certain patterns.

Individuals become members of "informal groups" within a company, which have their own behaviour patterns, and informal leaders, which may not coincide with the formal structure. An individual therefore acts under multiple sources of formal and informal pressures and limitations. Individuals also find themselves members of external social groups as well as internal ones, whether through their person lives or through their organization²⁷. Such informal groups and the interaction between them form what is called the "informal organization". The informal organization is thus a product of the formal organization. It is more useful to try to understand, guide and benefit from an informal organization than resist or suppress it.

Informal groups may share common interests e.g. work standards which may be supportive of the formal ones or restrictive. They may also hold values, opinions or beliefs which may be a product of group life. Such values, opinions or beliefs may be supportive or dysfunctional to the organization. Communication is quicker and better in informal groups.

Another organization concept is that of leadership²⁸.

The term is used as the attribute of a position, as the characteristic of a person and as a category of behaviour.

It involves legitimate power granted by the organization to give rewards and punishments, or it involves a power from personal expertise. It is made

necessary by the incompleteness of organizational design, the changing environmental conditions, the internal dependencies of organizations and the nature of human membership in organization²⁹.

VIII.2 Basic Organizational Structure

The formal structures of the Saudi companies do not reflect their real needs. In general the British companies formal structure is better designed and suited to real needs.

Two main patterns can be cited from the case studies:

1. Firstly the traditional neglect by Arab management of the personnel function and personnel affairs, as not being important enough so as to warrant a separate responsible manager, may have been forgiven were it not for the fact that Saudi Arabia has a special/unique manpower situation
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(see manpower section later) and consequently is more rather than less in need of special attention to the personnel function - particularly as many of Saudi management's problems are personnel - related. Our observations of the Saudi case studies showed clearly this neglect of the personnel function. Many Saudi companies would 'lump' personnel with administration, confine it to routine records, exit and entry visas and housing affairs and ignore it.

The U.K. printing company had a separate personnel manager while the Saudi printer did not. Similarly whereas the U.K. cable company had a personnel manager the Saudi cable company lumped this area with a number of unrelated activities under the 'business manager's authority.

The U.K. car importer had a legal and personnel manager while the Saudi car importer 'lumped' it with administration and ignored it. In the newspaper pair there was no personnel manager as such but the size (both about 45 employees at editorial) reduced the need for it.

Organization charts were available with all the U.K. firms and were a fair representation of reality. The Saudi companies did have some basic, incomplete and out-of-date charts which were mostly under file at the chief executive's office. In some cases the charts represented expectation rather than reality.

2. The formal structure of British firms displayed greater market-awareness and consumer-orientation. The Saudi companies despite the free-enterprise nature of the country did not show sufficient market-awareness. An examination of the charts would elaborate on this. It WAS seen that whereas with the U.K. car importer, one of the top two directors is the sales and marketing director - as would be expected of a 'selling' company with no production function - with the Saudi car importer the top two directors are finance and administration and the technical manager.

Sales, the most important function for such a company - one would assume - is relegated to a sub-function of finance and administration - 'marketing' as such is not evident. Again with the U.K. printer there are two high-level directors concerned with selling, namely the marketing director and the sales development director. In the Saudi printer only a commercial manager is evident whose actual duties do not cover 'marketing' in the accepted sense. He is mainly processing incoming orders gained through the efforts of the owners or the general manager in many cases. Again the Saudi newspaper - before the present editor - was almost totally oblivious to the specific marketing of its newspaper to its readers and advertizers while the British paper is totally organised for such activity.

In the Saudi cable company the 'commercial' manager has 'product engineering' as part of his duty!!!

The informal structure is normally influenced by such factors as company size, ownership, social, political and professional factors. However in Saudi Arabia a unique feature plays a prominent role in the informal structure - specifically the unique manpower situation has resulted in informal groupings within companies based on nationality (and to a much lesser extent, on religion). Furthermore a common feature in developing countries is also present in Saudi Arabia, namely the greater influence personal relationships and friendships have on the informal structures that develop. In Saudi Arabia 'connections' through relatives, friends and collaborators is almost a pass-word to getting your way. In summary one would say that informal groups in the U.K. companies are not paramount nor are they a hindrance to the formal structure. This is not the case in Saudi Arabia however where informal groups could have negative effects (group jealousies, inter-rivalry and obstructive nationality groupings).

An interesting observed pattern in the four case studies on Saudi companies but also on three other Saudi case studies completed but not used (soft-drink importer, paint manufacturer and advertizing agency) is the nationality stratification of employed by type of work performed (This is clearly not evident in the British firms). Thus a possible classic nationality organizational pattern would include; the Saudi chairman/owner/major shareholder, followed by a managing director or general manager who is possibly American, German or British and

to a lesser extent Egyptian, Lebanese or Palestinian. This is followed by the departmental managers who are invariably Egyptian, British, Palestinian, Lebanese and to a lesser extent Indian or Pakistani. This is then followed by salesman from India, Pakistan, Egyptian, Lebanon (to a much lesser extent also U.K.). Indians and Egyptians form the bulk of administration clerks. Drivers are invariably Indian, Indonesian, Filipinos or Egyptian and Eritereans. Workers are invariably Indians, Koreans, Filipinos, African, Somalis, Egyptian, Eritereans, Yemenis and Pakistanis.

Management staff specialists and service departments are less developed in the Saudi companies compared with the British firms, mainly through lack of appreciation of their importance. Saudi companies occasionally use outside staff specialists when a need is perceived. In the U.K. companies, staff specialists are available 'in-house' in more cases.

The observed differences between U.K. and Saudi basic organizational patterns can be more specifically related to educational environmental factors. Lack of sophistication in modern management needs and the unique manpower situation in Saudi Arabia are important factors affecting the reality of organization.

VIII.3 Authority Definition, Delegation and Decentralization

Among the Saudi and British companies examined no systematic patterns were detected in the availability and use of job descriptions or formal job definitions, confirming that the issue of job descriptions is not so much one that involves differences between countries as much as it involves differences between companies and their management philosophy; although the Saudi educational environmental constraints undoubtedly reflect in less Saudi firms appreciating the advantages of job descriptions compared with U.K. companies. Thus there were no effective and up-to-date job descriptions at the newspaper pair; the Saudi newspaper had called in a management consulting group two years ago to advice on re-organization. Job descriptions were proposed at the time but were never effectively utilized since then.

The Saudi printers had job descriptions for some posts but were again merely neglected or ignored. The U.K. printer also had some job descriptions. The Saudi cable company and the U.K. cable company also had 'patchy' job descriptions. The Saudi car importer did not have comprehensive job descriptions nor did the U.K. car importer. Some managers thought job descriptions could limit maneouvability with subordinates.

Our sample of four case study pairs is too small to form a basis for identifying distinct organizational patterns.

However since we had covered three other Saudi companies which were not in fact utilized (owing to matching problems) and having lived in Saudi Arabia long enough to observe certain trends we feel we are in a position to conclude that the delegation of authority and responsibility in Saudi Arabia is very limited indeed. In almost all the Saudi companies little evidence of delegation further down the line (other than at the very top management level) was observed whereas some evidence of delegation was evident in the U.K. e.g. U.K. car importer and printer.

We feel that the issue of authority delegation is closely related to the societal environment and that it tends to be a characteristic of many less developed countries. Thus the U.N. survey of management in which 64 per cent of the U.N. experts surveyed answered negatively to a question on the general willingness of top managers to delegate would appear to us as reasonable.³⁰ The two most important reasons given for non-delegation were lack of confidence in the competence of subordinates and the traditional authority system. Other reasons given included the egocentricity and self-confidence of top managers in the public sector, and the fear of divulging information in the private sectors. These factors can be confirmed by us through observations in Saudi Arabia.

In Saudi Arabia, as with neighbouring Arab countries, the conception of authority is different from that in

Britain or the U.S.A. Authority is accepted as the medium through which things are accomplished in the West. In Saudi Arabia however it can be very much secondary to the phenomena of 'influence' noted in Iraq by A.Y. Aboune. The equivalent popular term in Saudi Arabia is 'connections'. Authority has no meaning when confronted with 'connections' in Saudi Arabia and having 'connections' is almost an essential ingredient to getting things done. Milne's comment in relation to Iraq - but equally applicable to Saudi Arabia - noted " . . . if we think of authority as power applied vertically downwards . . . we must think of influence as another form of power applied laterally . . ." ³¹

There was also a wide range of acceptable forms by which influence may be used to interfere and intervene in actions being taken within organizations. Milne noted that obligation, a horizontal response to influence, is an even greater force than responsibility which is a vertical response to authority. However while the vertical force tends to be integrative, the lateral force cannot help but be disintegrative.

El-Saye observed that management in the Arab world is plagued by the dictatorship of the chief executive. The people at the top are not prepared to delegate responsibility. ³²

This is particularly frustrating for middle management and leads to lack of commitment and job satisfaction and rapid staff turnover. He also noted the tendency for directors not to look at an employee's performance as a whole and to complement or criticise the broad context

but to 'pick' on his mistakes or go through his work point by point modifying and over-ruling his decisions. Thus the demoralised employees get into the habit of shirking decisions and referring even the most trivial matters upto a director. Even the wording of a telex would have to be approved by the head man. The same Head man of a 100 million dollar turnover company may find himself interviewing a junior mechanic applying for a job at the firm's garage.

At the root of these habits observed El-Saye is the frightened mentality of the trader which is preoccupied with retaining control to prevent dishonesty rather than delegating to make his employees more productive. In a world where personal inclination overrides formal organization, the concept of reward and punishment for management performance are always less important than the family ties to reward according to a person's age, period of service or need. When a distinction is drawn between employees it is on a kinship basis.

El-Saye emphasizes however that while personal loyalty on this extravagant scale is highly damaging, personal loyalty is also one of the most positive features of Arab business organization. It would be tragic to sacrifice loyalty on the altar of modernity only to replace it with the alienation which is a major and increasing feature of business organizations in the West.

An encouraging factor is that Arab directors are only too

well aware of their own and their organization's shortcomings - their problem is forcing themselves to do something about them. As the manager of a subsidiary of one of the big Saudi merchant groups put it: "Delegation for the Arabs is like giving up smoking for it's something one always intends to do, but never actually does".³³ The owners and directors of Arab companies are sometimes reluctant to take difficult, embarrassing decisions which may cut through the intensely personal system of relationships within their organizations. Arab employers are also temperamentally unsuited to deal with imperfect solutions. They do not like to be told that there are half a dozen possibilities, each with its own pros and cons. The result is that they will often call in a consultant - inevitably referred to as an "expert" - to tell them the 'perfect' solution.

In today's Saudi Arabia - given the present manpower situation-any discussion or examination of management practice inevitably means in many cases management as practiced by foreign managers in Saudi Arabia. Two factors however assist in making this area less complex; firstly many of the expatriate managers including chief executives (e.g. the Saudi printer, the Saudi car importer, the - unused - Saudi paint maker) are Arab managers anyway and through similarities in socio-cultural systems share similar attitudes to matters such as authority and its delegation with their Saudi hosts. Secondly, there is a tendency even with western managers

in Saudi Arabia to occasionally adopt local attitudes to management practice simply because it was more convenient and more effective in some cases than western concepts. This observation was noted for example by an American researcher who found that contrary to expectations, not even the U.S. educated and trained managers of U.S. subsidiaries in developing countries found it possible or desirable to decentralise authority, and this lack of decentralization did not seem to disturb employees or result (in major organizational conflicts).³⁴

This is not to underrate the negative aspects of centralization. As a U.S. business vice-president familiar with the area observed "The degree of centralization of authority in Middle-Eastern countries creates severe problems. They include red tape, long-work delays, inefficiency, over-bureaucratization of work rules and procedures. Worse yet, the centralization creates major communication break-downs due to the long and rigid formal reporting procedures and the unavoidable companion problem of unavailability of timely information for decision-making. This leads to apathy, indifference, and lack of initiative among employees of various management levels."³⁵

Features which are applicable to this then and can be confirmed by the researcher in Saudi Arabia include:

a) the overpowering effect on authority of 'influence'

or 'connections' in getting things done. As in Iraq and other Arab countries authority is influenced by personal as well as group relations and loyalties. Loyalties (which may themselves conflict) are usually to family, tribe and religion. Saudi Arabia (with a 80% foreign workforce has a nationality loyalty factor that will also influence authority and decision-making.

b) The domineering authoritative Saudi manager is also to some degree a reflection of the traditional family unit with it's authoritation father and subordinate rather than supportive mother and children.

c) Particularly in the government sector, incentive, drive and enterprise are not always welcomed by the comf^yqmist majority.

d) Emotion and sentiment also play a larger role in Saudi management decisions compared with the U.K.

e) There is a tendency to look at the chief executive in the traditional chief role with an acceptance that all power should rest with him.

f) Two management attitudes seem to predominate among Saudis either that of the private small trader or that of the government beaucratic man.

g) The top executive in the Saudi company (be he Saudi or Arab expatriate) is expected to have complete knowledge

and control over his area of authority. However often his lack of skills in effective control leads to detailed full control instead.

h) It is also true in Saudi Arabia

that through lack of an appreciation of modern management - delegation is often interpreted as imposition of duties.

i) A point mentioned earlier is the lack of trust in colleagues and subordinates and the subordinates lack of competence in many cases.

j) Many chief executives desire to retain power influence and prestige and to maintain the image of indispensability. Few ever prepare successors.

k) There is little recognition of the importance of selection and training - academic qualifications are frequently used as the only measure of ability.

l) A very negative result of this over-centralization is also the severe overloading of the chief executives in trivial minor matters as well as major important matters.

m) Responsibilities however are eagerly shared downwards and upwards and few top executives accept responsibility for the failure of subordinates. The

willingness to share responsibility is also reflected in the large number of signatures required for most transactions. A study on management in LDC's revealed a general reluctance to shoulder responsibility through the fear of making mistakes, the lack of certainty of backing from higher managers and the acceptance that in traditional authority systems, subordinates are supposed to carry out orders rather than display initiative.³⁶

In the U.K. in comparison there is undoubtedly a greater degree of decentralization and this was also seen in the U.K. case studies. The evolution of Management thought and the trend towards professionalization in the U.K. has led to the development of an organization structure which permits and encourages decentralization and delegation of authority and responsibility particularly in some of the large and better known firms. This delegation or decentralization however may be limited by the nature of the company and its activity.

VIII.4 Leaders Style and Attributes

The prevalent forms of leadership style is affected by the societal environment. This conclusion has been reached by a number of researchers of comparative cross-national management including Haire et. al.³⁷ It is now accepted that the most suitable style of management will vary with the societal environment and the conditions and with fall somewhere along the authoritarian - democratic continuum. It is also accepted that managers

do, in fact, use quite different patterns of leadership styles contingent on their awareness of different situations.

In less developed countries with authoritarian governments; the leadership style of management also appears to be mostly authoritarian. This is normally reinforced not only by a lack in skills, education and competence of managers unfamiliar with democratic-participative forms of management but also by subordinates themselves untrained or motivated in participation forms. Leadership style is not only affected by the education, skill and competence of managers but also by the managers background and their personal characteristics.

Further the nature of the company's activity, the company's heritage, tradition and history may also influence the management style.

The style of leaders in two of the four Saudi companies examined were found to be mostly authoritarian (printers and car importer). The other two Saudi companies had managers who started off with a somewhat democratic-participative style (the American managing director at the cable company and the western educated Saudi at the newspaper) but found such styles dysfunctional and were then obliged to adopt to a somewhat autocratic style. Subordinates at the cables company and the newspaper, many of whom were from less developed Arab and non-Arab developing countries were found to be more respectful

of and responsive to an autocratic style of management. Surprisingly even British staff at the newspaper responded better to the new, mostly autocratic, management style. However that is not to say that the autocratic style as practised in Saudi Arabia is best in the long-run. It seems to give results in the short-run but in many companies the style could do with more of a humanitarian component. Many subordinates who are on 'captive sponsorship' (see manpower section) are exploited unnecessarily. A largely autocratic but humanitarian style may thus seem to suit Saudi current needs best.

With the British companies examined two of the four companies interestingly enough were undergoing a change of leadership style when first visited. In one case (the cable company) the old managing directors (who had recently died) operated the company in a family-type authoritarian, traditional paternalistic manner (even though it was not a family company) and his style pervaded the whole company. This was probably facilitated by the relatively stable technology of the cable company, and the fact that the cable company was practically the main employer in a small village giving it a company town characteristic. The new managing director has stated that he wished to move away from the authoritarian style but it seems this is more easily said than done and may take some time. In the second British case (the car importer) the change in management style was brought about by a change in ownership from a family

ownership to a large public multinational trading and business group. The old style did have elements of authoritarianism about it. After the change in ownership a move away from this style to a more participative approach has been detected.

With the U.K. printer the leadership style was also seen to be a little autocratic at times but the managing director himself thought he probably practiced a number of styles according to the situation. This is in keeping with Heller's research which showed that over 70% of the U.K. managers use four or five of the suggested five leadership styles and less than 1% use only one style.³⁸

The newspaper editor was a classic autocratic leader although it may be that the nature of his work in particular demanded some elements of that style to get results.

We can thus see that on the four pairs of case studies we examined that the authoritarian style of leadership was utilized to a greater extent in the Saudi companies and did not appear to be dysfunctional. In the U.K. companies we saw (particularly in the car importer and the cable company both previously run by traditional old style British management) the existence of some authoritarian leadership but an increasing trend towards utilizing more of a participative approach. However the participative approach manifested itself more in for example information exchange rather than a democratic

type decisions-consulting system. A characteristic of one Saudi chairman was to have a 'confidential' agent so that the chairman who is normally busy elsewhere would be kept in touch with activity.

British leadership styles, their attributes and evolution have been well covered by others. Our British samples certainly showed a movement towards more participation with employees in the two companies undergoing change (car importer and cable producer). Authoritarian management style was still existent in the U.K. however (newspaper and until recently the cable producer).

Rosemary Stewart noted that there was a general trend away from the more authoritative type of management in Britain. Reasons for such a trend include the more democratic nature of society as a whole; the higher level of education; the growth of trade unions and full employment.³⁹

Stewart thought that the majority of U.K. management cannot however be described as democratic, although the goodwill of labour was essential and recognized. She also observed that management in the older industries were more autocratic than those of the newer scientific industries.

This was also observed by us at the U.K. cable producer which until very recently had a very autocratic managing director.

Other commentators on U.K. leadership styles included Harbison and Myers who noted the changes in leadership style since the war and the consequent growth of industry wide collective bargaining. They noted that control over most matters were retained by managers, for the surrender of control over some, and called it "constitutional" management: or "neo-paternalism" of the new managers in place of the paternalism of the old owner-managers.⁴⁰

As would be expected the role of the family business in Saudi Arabia is still extensive whereas in the U.K. the family business is gradually being replaced by the professional salaried managers of the public companies. All four Saudi companies are family-owned or controlled. In the British companies only two companies were family controlled (the car importer and the printer) and one of them (the car importer) was taken over by a multinational group and lost its family status (the car importer).

The background, education and competence of British managers have also been dealt with by many writers. There seems to be agreement on some main points some of which have also been noticed by us in our case work and elsewhere. The points of agreement included the following:

University graduates are a fairly recent addition to the ranks of managers -

The incidence of top positions being occupied by family members irrespective of competence is now much less (e.g. managing director at U.K. printer was non-family).

In the U.K. there is a less scope for entrepreneurial ability and more emphasis on "team" effort and "acceptability to colleagues".

A general interest in management education.

More emphasis in the past but decreasing now on the social background of managers including public school and oxbridge education.

To summarise we conclude that there is a difference in leadership style between the Saudi and British companies particularly in the light of the overall business environment and that British management is less autocratic and boss-centred than Saudi management.

Summary of Organization

	News-Papers		Cables		Printers		Car Importer	
	UK	SA	UK	SA	UK	SA	UK	SA
Effectiveness of the formal structure	3	2	3	2	3	1	3	1
Definition of the formal structure	1	1	2	2	2	1	2	1
Informal structure (Aid or hindrance?)	3	1	3	1	3	1	2	1
Staff specialists and service department exist?	3	1	3	1	3	1	3	1
Job descriptions	1	1	3	3	3	1	2	1
Delegation/decentralized	2	1	2	2	3	1	3	1
Leaders style (suitable to company objective?)	3	3	3	2	3	3	3	3
Leaders attributes: Effectiveness of/Education skill competence	3	2	2	2	3	2	2	1

3 = High, strong, good
 2 = Moderate
 1 = Low, weak, poor.

CHAPTER IX

PLANNING AND CONTROL

IX.1 Introduction

Planning is a basic management function which begins with setting objectives and specifying the steps needed to reach them. A plan is a pre-determined course of action which helps to provide purpose and direction for members of an enterprise. Objectives in a free enterprise economy generally include definite rates of profit which are based on what is considered feasible in the light of forecasts of the state of the economy, the position of the industry and the company's position vis-a-vis the competition.

Objectives and plans are both short-range and long-range. Short-range plans cover the next year or two while long-range plans extend for five to ten years. When the long-range plan is tentatively developed, it is necessary to work back from the five-year goal, decide what must be accomplished each year if it is to be met on schedule, and then determine what facilities are available and whether they will be adequate. It is at this point that modifications to the long-range plan may be made.

The sales forecast is the most important part of the one

year plan because it is the amount of sales that will determine the amount of revenue that will be available and also the amount of production needed. Sales forecasts rely on such indicators as salesman's estimates, trends in Gross National Product, industrial production, personal incomes, wholesale prices, consumer prices, and trends relevant to the particular industry. Other factors which effect forecasting in general include political stability, population trends, government controls and fiscal policy. Thus forecasting precedes the preparation of a budget and is concerned with probable events.

Budgets are of several types, current or expense cash and capital budgets, expense budgets cover labour and material needed for the amount of production forecast, plus overhead to cover such things as salaries and interest on debt. ^{There is also} the cash budget to which companies are giving increasing attention. Income is not constant over the year so it is important for the company to know how much cash it will have during each period. If cash will be short at certain times for example, it may have to borrow to meet its current bills, or draw in its reserves, and it must plan ahead for this. Capital budgets cover such things as new plant and equipment that are not charged against the current year's income.

This is taken care of by depreciation, which is included in the expense budget as part of the overheads.

Different firms may use different plan types but the general approach is to include three types:

1. A strategic plan.
2. A corporate development plan.
3. An operations plan.

The strategic plan sets out such things as what business the firm is really in. It also sets objectives or targets, quantitative and qualitative, for the period the plan covers. It covers the strategy to be used in taking advantage of opportunities relying on market research and intelligence reports from the field. In addition, it spells out internal areas where the company should be strengthened and activities which may be dropped.

The Corporate Development Plan covers Research and Development, plans for diversification, plans for divesting the company of unprofitable products or sections, the new business needed to meet the profit objectives and the controls to be instituted.

Finally there may be an operations plan which covers the activity each section of the company is to complete, the five year goals and the goals for the year ahead with the necessary budgets. This might cover such things as:

1. The annual sales and earnings goal.

2. The annual marketing plans for each major product.
3. The strategic plan assignments.
4. Capital expenditure.
5. The five-year budget based upon the Corporate Development Plan.

Planning is important because it helps offset uncertainty and change, it focuses attention on objectives, helps gain economical operations and facilitates control.

Planning today has become much more important as organisations have increased in size, technological and managerial complexity and geographical dispersion. Objectives are more numerous and complex catering for social, human and personal needs as well as the traditional profit and growth objectives. The environment has become more turbulent and more uncertain with an increasing pace of technological and other changes. The influence and control of the external environment has increased particularly the influence of government. Thus planning is seen today in a more dynamic sense catering for rapid, frequent and more extensive change.

For the large firm in particular the need for corporate planning and long-range planning has increased as greater coordination of different divisions and greater anticipation of future change is called for. Plans must allow for the complexities of objectives strategies and markets as well as for growth, diversification, re-organisation, mergers, acquisitions and take-overs. In

our field case work we have covered a limited number of issues in planning namely the significance of planning to the company and planning effectiveness.

Control is closely related to planning because management must develop systems of determining when deviations from plans are occurring in time to take steps to bring actual results into line with the plans or to revise the plans in the light of changed circumstances. One control tool is sales analysis; this involves analysis of sales by type of product and by type of customer. Performance against budget is another important control tool since it shows whether the company is spending more than it is expected to. The value of this measurement depends on two factors: how the cost is broken down and how often comparisons of actual and budgeted amounts are available. Feedback must be frequent, regular and detailed enough to make it possible to determine why variances have occurred and permit action where required.

Thus control involves targets and standards, feedback of information and corrective action. Control today also involves human and behavioural considerations as well as technical ones. The classical school focussed on the process of control, mainly the basic steps involved, requirements for adequate control, the strategic control points and the various control devices such as sales analysis and budgets. Managerial control has today become, particularly in the industrial nations, more complex and difficult for reasons which include;

the increase in the size of the organisation with its greater diversification and geographical ~~spread~~ changes in the nature of ownership, with an increase in outside control, pressure and influence, the increasing cost of capital and greater competition forcing greater efficiency and a greater watch on costs, more democratic and participative management trends and more recognition of organizations as dynamic, interacting units, an external environment that is in a greater state of flux having a stronger influence on the functioning of organisations, an explosion in the amount of information and the techniques of its analysis resulting ⁱⁿ yet greater difficulty and uncertainty in its accumulation and analysis. All the above factors have been significant effects on the types of control systems being adopted or designed and the ways in which they are applied.

Thus control involves an extensive flow of information within the organisation and between the organisation and its external environment. Information however has to be balanced against cost. Control may involve operational research and various other decision making models and approaches, quantitative as well as qualitative. Control may mean integrated, corporate systems following cybernetic concepts, rather than partial and departmental ones, or an 'open' system approach may be adopted. Control may also involve various modern techniques and tools such as management by objective (MBO). The ranking of some fundamental aspects of control is shown in the analysis table. The areas covered in the case

work were limited to the significance of control to the company concerned and control effectiveness.

IX.2 The Significance of Planning and Control to the Company

The degree of importance of planning and control to a company will vary with a number of factors including

- * the extent of fluctuation in levels of national prosperity and in the business, political and social environments
- * external requirements and controls (e.g. government laws, regulations and audits and company policies on controls)
- * changes in markets, products and technology
- * levels of costs particularly of raw materials and manpower
- * *Severity* of competition
- * availability of capital
- * availability of manpower in numbers and skills, its mobility and turnover
- * company size
- * speed of expansion, diversification and geographic dispersion
- * the need for co-ordination between departments or plants
- * company long and short-range plans.

Patterns have emerged from the case studies backed

by our observations of other Saudi companies to which we have had access, including observations of the Saudi environment.

The Saudi business environment is one that is characterized by a free-enterprise market economy with a fair degree of competition in many areas; by fast moving changes in the business, social and regional political environment and by general national prosperity. It is also characterized by a unique manpower situation involving shortages in numbers and skills of indigenous Saudi workers with a consequent predominance of foreign guest workers (to the extent of 80%+ in the private sector) and a high labour turnover. (All the above factors would normally point to a greater need for effective planning and control). At the risk of over-simplification we may divide management in the Saudi private sector into two main groups; the first group is characterized by Saudi, Egyptian, Palestinian, Lebanese/Syrian management (but also nationals of other third world non-Arab countries), and the second group would be characterized by European or American management. Simplifying again; the importance attached to the planning and control functions and the effectiveness of planning and control practices between the western-managed and the Saudi/Arab/third world managed company will vary and this has been confirmed by our own observations.

Despite our small sample we have had evidence of such differences between the American-managed and the Arab-

managed Saudi companies (car importer, printer and newspaper). Other companies observed by us in Saudi Arabia confirm that such differences exist. (This is a relative statement and applies specifically to planning and control since even western managers in Saudi Arabia have needed to adapt to local practice in some areas). Not unexpectedly our own observations of the Saudi Arab-managed Saudi companies have indicated misconceptions about the meaning of planning and control and many misapplications similar to those found in Iraq. We can confirm that for such companies planning was also often seen as a formal or academic exercise. Planning was vague and wishful if it existed at all and represented optimistic ambitions rather than realistic expectations.

In the western-managed Saudi company however greater importance was attached to planning and control and both were effectively practised within the limits of the local constraints (such as lack of markets or industry data etc.) In the British companies again planning and control was given greater importance and was more effectively practised. The inadequate state of planning and control in the Saudi/Arab managed companies can also be related to environmental factors such as the general state of economic, political and social underdevelopment, the negative concept of time, the fatalistic Arab attitude and the lack of managerial expertise.

Control in the Saudi/Arab-managed company in Saudi Arabia was as in Iraq also considered as a short-term issue,

with emphasis on immediate requirements. In every similar way to Iraq, control is also of details rather than overall performance, of procedures rather than results (newspaper central administration, printer) highly centralised and personalized (all 3 Arab-managed) restricted to financial matters with trivial matters given too much attention (printer and central administration newspaper).

Control is also often associated with power. It is ad hoc at times and characterized by sudden and radical corrections of errors and the re-establishment of authority rather than a continuous process of correction of deviations.

Reasons for such control features are again somewhat typical of many Arab countries and include:

- the personality of managers
- the nature of their authority
- the style of their management
- the lack of managerial expertise
- lack of trust in subordinates
- the control of people instead of the control of activities, processes and results
- the personality of subordinates and their attitudes to their work, responsibility, and organization
- the desire to maintain power as central and as high as possible
- the inability to sustain interest and follow up for

long periods

the lack of information in accurate accounts and in

the timeliness and usefulness of any analysis

the inadequacy of control systems and of feedback

the multifarious sources of external and internal

pressures and influence

Control is thus highly centralized and boss-centred.

The situation among the British firms at times they were examined was better and planning and control was not only considered very important but was also practised more effectively. The car importer faced a competitive market and government objections to increased car sales and supplies from Japan. The printer has a secure customer position; two thirds being regular customers but was nonetheless conducting aggressive marketing for the remaining $\frac{1}{3}$ rd. The cable producer had a stable and secure home market but carried out aggressive marketing in exports which was the main growth area. The newspaper also faced a competitive environment in the Fleet Street papers but was nonetheless secure since only it gave local news as well as national.

Planning in all cases aimed at optimization of operations and market expansion and growth. Control was concerned with efficiencies and cost reductions. The importance attached to planning and control by all the companies is shown in Table .

IX.3 Planning Practices and Effectiveness

In the Saudi companies investigated only one company (the cable producer) showed clear planning practices. As expected in a market economy, all the Saudi firms had profitability as a main objective.

Other objectives varied with the company concerned. The car importer wanted a 1.00% share of the annual car sales market, cost reductions and service improvement. The printer wanted to diversify into packaging and to reduce costs. The newspaper hoped for more copy and advertising sales, quality improvement in local business news coverage and a reduction in high staff turnover. The cable producer hoped for a certain percentage of the domestic cable market.

The British firms were similarly interested in profitability but other objectives again varied with the firm concerned. Thus the U.K. car importer aimed for the capture and maintenance of a certain percentage of the car market, (a somewhat belated objective since government controls on imports were now in prospect), customer satisfaction through an image based on quality, reliability and spare parts and service availability. The U.K. printer hoped for an increase in its sales of quality financial and specialized printing particularly in exports and at the maintenance and improvement in cost control.

The newspaper aimed at increased community interaction and quality improvement while the cable producer was hoping to reduce manning level 'fine-tune' costs and increase exports.

Of all four Saudi companies, only the cable producer made any attempts at long-range planning. This indicated not only the difficulty of such planning in an unpredictable environment but also a lack of management appreciation of the potential benefits.

Long-range planning was much more evident among the British firms. The U.K. car importer had a five-year plan and forecast covering a comprehensive range of matters including market share, organisational structure, succession, future marketing and sales productions, development of dealer network and service back-up. The cable producer had a comprehensive five year plan covering all areas including new markets, market developments, expansion, capital expenditure, government policy, competitors, nationalization, technological forecasting and development and increased export targets. A weak area here is manpower planning since the lack of manpower training in the past was causing the company problems at the time of the visit. The U.K. printer carried out two to three year planning according to the managing director which also involved strategic matters. The newspaper has some plans drawn up at group level. Overall the most systematic planning was seen with the cable producer (interestingly this also

applies to the Saudi cable producer). The 'short' plan is the monthly forecast which is really part of the twelve-month rollover forecast, and budget, the quarterly medium forecast and report and the five-year plan. The twelve-month budget and forecast is detailed. At the end of the first month, a monthly analysis and report is completed giving all aspects of company performance for that month and company actual performance with forecast performance. (At the time of the visit proper budgets and budgetary control were still being introduced). In this report which is sent to the parent group headquarters in Europe at the end of the month, the next twelve months are re-forecasted on a twelve-month roll-over basis. Every quarter, a quarterly forecast and report is made up giving more comprehensive information and again re-forecasting the five-year plans on a roll-over basis with a forecast also for the next four quarters. In almost all the companies, Saudi and British, short-range to medium-range planning took the form of annual budgets; (the Saudi newspaper had not yet implemented budgeting). Plans generally covered sales, production and finance in almost all cases where it was relevant. Plans shorter than one year were based on the annual budget.

It was also noted that planning practice was more effective in the British companies and greater significance was attended to it whereas for the Saudi companies at best, and where it existed, it meant the annual budget. This we believe can be partly attributed to (societal)

environmental reasons particularly the level of management development and expertise in Saudi Arabia.

The participants in the planning process between the two countries also showed a pattern. In Saudi Arabia participation was limited to the chief executive, the accounts and department heads and little planning assistance was available from specialized departments. In the British companies planning involved more people and more planning assistance was available from specialized departments (e.g. the U.K. car importer compared to the limited Saudi car importer).

The information data used by companies in the two countries also displayed some differences. Internal data in Saudi companies was mainly historical but adequate although its presentation lacked methodology. External information is practically non-existent in Saudi Arabia. Every company needs to conduct its own market research and in many cases make an educated 'guess'. Internal data used at the British companies is more accurate, better presented and more immediately available. External services of data for the British companies are more readily available compared to the situation in Saudi Arabia.

Systems, procedures and tools used are more sophisticated in the British companies (e.g. computers at car importer, and cable producer but not in Saudi equivalents) but companies in both countries also rely on simple clerical

and paperwork systems. Feedback and correction from deviations is more systematic, faster and more appropriate with the British companies.

Table gives a simple summary based on:

- * The existence and suitability of long-range plan.
- * The existence and suitability of medium and short-range plan.
- * The effectiveness of planning.

Manpower planning is not well covered in Saudi companies which is somewhat surprising given the manpower situation in the country.

IX.4 Control Practice and Effectiveness

In general the control function is influenced by a number of factors including the company's task environment, management's leadership style, attitudes and attributes (level of education, skill, competence and expertise) and by the external societal environment. The difficulty is in determining the relative weights or importance of each factor.

An examination of the Saudi companies and their control practices has supported our view that control practices in Saudi/Arab managed companies are similar to those found in neighbouring Arab countries such as Iraq, Syria or Jordan. A recent article by a Saudi-based director stated: Arab management is plagued by a dictatorship of the chief executive . Consequent and related aspects to this domination by the chief executive apply equally well to most Arab countries.

Overall, there is, in the Arab and Saudi-managed Saudi firms, a far greater emphasis on control than there is on planning. We also believe there is, with many Arab managers, a misconception about the meaning of control and to some its equation with authority and power.

The desire to maintain authority and power, the lack of trust and confidence in subordinates and the fear of the consequences of failure all lead to an over-emphasis on control. The lack of proper appreciation of control

methods and the lack of effectivity of present systems also lead occasionally to sudden panic drastic measures rather than a gradual correction of deviations. "We tend to stop the river flow rather than erect dams in such occasions" was how one interviewed manager put it. These aspects have also been noted in neighbouring Iraq - supporting Haire et al's remarks about a "cultural cluster of nations".

Thus among control features which have been confirmed by us in Saudi Arabia we include the following:

- A misconception of the control function by many Arab managers, its confusion with authority and power, the lack of distinction between the control of operations and the control of people, the inability to control what really matters and the concentration instead of trivial matters and the inability to see through or work out the consequences of a trivial 'control' action.
- The domination or dictatorship of the chief executive and its consequences. All formal controls are designed so as to lead to the chief executive (both major and minor control matters). The result is a typically overloaded Arab chief executive and the sacrifice of fundamental control for minor ones.
- Errors of, failure or incompetence are sometimes concealed. This is facilitated by the lack of proper control systems. When such mistakes do surface; drastic

corrective action is taken sending shockwaves throughout the company.

- There is more flexibility in a negative sense in that occasionally the formal system can be circum-navigated by a normal employee taking a problem, even a personal one, direct to the top man and avoiding his immediate superior. This can 'humanize' the company but may be a negative factor for efficiency.

Performance control was also poor in the Saudi companies and, if available, was mainly ad hoc. Good cost control or costing practice was also lacking in the Saudi/Arab managed companies.

In the U.K. firms there was a better understanding of the meaning of control, a better appreciation of control tools and a far better application of such tools. Controls were more dependent on variations in management competence, nature of company objectives and activities and on owner requirements, rather than on societal environmental factors.

Budgeting is a main tool used in some Saudi and all British companies surveyed (the sample exception is the Saudi newspaper up to very recently). Budgeting practice in the Saudi/U.K. companies appears adequate and is comprehensive in that it covers production, sales, raw materials, purchases, other expresses and costs, profits and loss, capital and cash budgets and manpower

expenses. However in the sample; Saudi company departments are occasionally told what their budget will be rather than consulted or jointly agreed. It has also taken too long at the Saudi newspaper to establish the principle of budgeting.

'Saudi' management also displays a typical Arab interest in financial issues such as expenditure to a point where even minor expenditure may need approval by the Chief executive. Unfortunately, this is taken in a beauracritic and bookkeeping sense only.

Other controls also vary in type and emphasis from one company to another according to functional needs, management attitudes, and methods. In the Saudi companies there was an emphasis on a sales rather than a marketing concept.

Meetings play a role in both Saudi and British companies but no significant environmental influence was detected in such meetings since they varied in regularity, type and need in both countries. The domination of a meeting by one person was observed somewhat in both countries albeit to a greater extent in the Saudi companies.

The fact that Western managed companies in Saudi Arabia have managed to apply modern budgeting and cost control systems despite the environment (e.g. Saudi Cable Co.) supports the contention that they are not too deeply "culturally-bound", and such systems therefore should,

through education, lend themselves more easily to transfer. The lack of real progress among Saudi/Arab-managed companies is due mainly to a lack of education, sophistication, or appreciation of modern management methods and techniques by many Saudi/Arab managers.

Table gives a summary of control features in the Saudi and British companies namely:

- The significance of the control function.
- Control practice.
- Control effectiveness.

Summary of Planning and Control Practice

	Newspapers		Cables		Printers		Car Importers	
	UK	SA	UK	SA	UK	SA	UK	SA
The Significance of Planning	3	1	3	2	3	1	3	1
Long-range Planning Practice	2	1	3	2	2	1	2	1
Medium and Short-range Planning Practice	3	1	3	3	3	3	3	2
Overall Effectiveness of Planning	3	1	3	2	3	1	2	1
Significance of Control	3	1	3	3	3	2	3	2
Control Practice	3	1	3	3	3	2	3	1
Control Effectiveness	3	1	3	3	3	1	3	1

3 = High, strong or good

2 = Moderate

1 = Low, weak or poor.

CHAPTER X

MANPOWER AND MANPOWER MANAGEMENT IN SAUDI ARABIA

X.1 Introduction

It was our view that the manpower situation - and consequently the manpower management function - is one of the most interesting and critical areas in Saudi Arabia today offering, as it does, sharp cross-national environmental contrast between Britain and Saudi Arabia. The situation is complicated by the unique manpower structure in Saudi Arabia where because of severe shortage in the numbers and skills of indigenous Saudi workers, well over 80% of the private sector workforce is foreign. This area was therefore selected for closest examination.

We propose to deal with this area in two parts firstly by introducing the manpower situation as it exists today in Saudi Arabia (based on private interviews, secondary material sources including newspapers and periodicals and our own observations and assessments). This will facilitate the context of the second part which compares actual manpower management practice among the British and Saudi firms of our limited sample. Manpower management is considered in its wider sense covering procurement, development, compensation and

maintenance and in the traditional sense involving employment (recruitment, dismissal, appraisal, promotion) wages and salaries (basic systems, incentives and benefits) motivation, industrial relations or joint consultation (grievance processing, interpreting agreements etc) education and training, welfare and employee services and health and safety. As stated elsewhere; this study and consequently this topic is slanted towards Saudi Arabia; a country which clearly suffers greater management information shortages than Britain.

X.2 The Manpower Situation in Saudi Arabia

The 'outer boundary' issues a manpower strategy in any given country needs to consider includes the total size of the workforce in numerical terms, which in turn is related to the total population size, its structure, age groups etc. the abilities and skills of the workforce; the total utilization of the existing workforce; the optimum utilization of the workforce, and the protection and development of the workforce.

Saudi Arabia today faces an unusual manpower situation that has been accentuated by the country's massive development programme. The recent oil-revenue-initiated process of development has involved among other things a total restructuring of the Kingdom's physical environment ^{and} / its economic rationale and the preparation of its people to live in vastly altered circumstances.

The social consequences of this modernization are far-reaching; since it has meant that people living in sprawling cities and in remote villages have had to adapt to an improved quality of life and a broader range of opportunities without undergoing disorientation or communal shock. There are fears for society's religious, moral, social and traditional values from the associated negative aspects of such change. Change therefore needs to be gradual to avoid des^tabilization. Commenting to a London publication on the 1980 mosque incident in Mecca the ex-editor of a Riyadh newspaper directly linked the rapid and largely 'materialistic' development of the country with the inability of the conservative - particularly extreme conservative - elements to absorb such development or transformation. Their resistance and its violent expression underlines the sensitivity of conservative traditional (albeit extreme) people to change.

However, given that the decision to press ahead with the country's accelerated development process was irreversible; the consequences for the Saudi economy in general and the manpower situation in particular have also been far-reaching. With the post-1974 quadrupling of oil prices and the start of Saudi Arabia's massive second Development Plan 1975 - 1980 it was clear that there would be tremendous needs for skilled people to implement the development and modernization programme, both in the private and the government sectors. Since such needs could not be satisfied by the limited and

relatively unskilled Saudi workforce it was therefore necessary to import such skills. What was perhaps not totally foreseen was the extent of the need to depend on foreigners in the years ahead and its consequences. This aspect is considered further on. Turning to the limited Saudi workforce, it would appear evident to any resident observer that the workforce has not yet reached total maturity and sufficiency. This is in many ways similar to the situation found in other developing countries.

The following features have been noted about the Saudi workforce:

1) The limited size of the Saudi workforce is essentially related to the relatively small Saudi population. The population of Saudi Arabia which is estimated at between four to seven million is relatively small particularly in comparison with the land mass area (about twelve times the size of Britain). Acceptable statistics on the working population are not available; however one authoritative source estimated the working population of Saudi Arabia at 29% of the total population. This compares with about 40% for the United States.* Certain factors also contribute to the relatively small size of the Saudi workforce among them:

a) The free system of education including generous overseas university scholarships. This has encouraged academic education and delayed youths entering the work

* Ahmed H AlYehia, Commerce Magazine, Jeddah, 1980.

market until the age of 25 years and beyond. b) All graduates come back to work for the government (whether because most are obliged to, having taken government scholarship money, or because of past trends of civil service security and prestige) - while this does not affect the total workforce it does deprive the private sector of qualified Saudis. c) The expansion of the Saudi military has led to greater competition for graduates. Youths entering the military are effectively taken out of the workforce. d) The increasingly attractive real Estate and small business opportunities have attracted away many well-qualified Saudis in search of better material well-being (particularly as government salaries have not moved upwards in the same way as rewards in the private sector - this has created tremendous desertions from the government sector in the last four years by many qualified Saudis). Not all such lucrative areas as real estate speculation can however be termed productive. e) The extended family structure in Saudi Arabia is characterized by the existence of only one bread-winner in the family (the father) despite the existence of perhaps a number of able-bodied sons over 16 who generally however tend to remain at home till their twenties, in many cases without working. f) The absence, for socio-cultural reasons, of women from the workforce. One estimate puts the number of Saudi working women at 1% of the population.

2) There is a severe lack of skilled and semi-skilled

Saudis within the limited Saudi workforce. This is related to the lack of sufficient general and technical education - a typical characteristic of a less developed country. Other evidence of Saudi Arabia's underdevelopment includes the low literacy rate (15%) and the high infant mortality rate (150 per 1000 compared with 7 per thousand in the West).

3) There is disguised or 'masked' unemployment through the inefficient utilization of manpower particularly in the civil service and in all government departments. The phenomenon of overstaffing in some (mainly low-skilled) areas in which 2/3 persons perform the job which can be performed by one goes hand in hand with severe shortages in certain key skilled areas. To quote the Minister of Industry: "We have disguised unemployment in the civil service where people work 2/3 hours per day in real productivity terms".

The misuse of working people and their time was also noted at top governmental levels where some key people spent much time on trivial matters which ought to be the concern of less highly skilled persons (this is also a result of the autocratic non-delegating nature of Arab manager - referred to earlier. Another observation indicating misuse of people's abilities was the observed wide-spread practice in which qualified people work in areas other than their original qualification with Doctors working as building contractors and geologists as administrators.

4) The productivity of the Saudi workforce is very low and was estimated at less than 50% by one authority. The lack of job evaluation and job description does not help the situation.

5) Another significant observation is the high turnover, instability and restlessness of the Saudi workforce. One survey conducted in Jeddah showed that 88% of the Saudi workforce in that city came from other Saudi towns or villages. The mobility of the Saudi workforce between major centres was estimated at 59% by the same survey.* This clearly creates instability for any employer. The reasons for the instability and high turnover of working Saudis are many but can be simply categorized into financial and socio-cultural ones. The Saudi worker will move on to a better paid job quite happily particularly on noticing differences in payments for the same job and particularly since good opportunities are plentiful in the country today. The nomadic life-style of many Saudi workers is difficult to shake off and many, as with the Yemeni workers only work long enough to satisfy basic current and immediate future needs and then move on, only to return perhaps a few weeks or months later to the same or another similar job. Many prefer to be self-employed and find taxi-driving an ideal occupation. Many government employers and even members of services took up taxi-driving as a part-time occupation. Government measures however have helped reduce this problem.

*A H AL Yehia, op cit.

6) Many psychological/cultural/attitudinal changes regarding work are needed. Vocational schools stand empty through the lack of applicants. Too many youths aspire for a desk job in comfortable air-conditioned offices. The work ethic and the industrial discipline that characterizes some parts of the West is lacking in Saudi Arabia.

7) It is the private sector that is deprived most of Saudi workers. In the past, and traditionally, most of educated Saudis coming on to the market entered the government sector. Not only did qualified Saudis prefer government service but additionally private business employers preferred imported manpower on 'sponsorship' conditions. Employers found such manpower easier to deal with than the indigenous Saudis.

8) Labour unions are illegal in Saudi Arabia. However there is a very comprehensive labour law that regulates the relationship between employer and employee by being fair to both parties.

Since any fundamental solutions to the Saudi manpower problem need to be long-run ones, there was no alternative in the short-run given the country's current ambitious development plans, to the importation of foreign labour and skills. The private sector in particular relies almost entirely today on foreign manpower.

The following are characteristics or significant features

relating to the foreign manpower situation in the Kingdom:

- The size of the foreign workforce in Saudi Arabia today is very large; between 2 - 3 million people from at least a dozen countries while the indigenous Saudi industrial workforce is only about 500,000 at most.
- Accurate nationality breakdowns are not available but in rough terms and in approximate order or rankings the following is a general guide. The Yemenis (north and south) form the largest group with an excess of one million. This group is followed by the Egyptians (in excess of 300,000) followed by the Pakistanis (200,000+) and Indians (at least 100,000) followed by other nationality groups each in excess of 25,000 such as Bengaladeshis, Somalis, Eritreans, Sudanese, Thais, Koreans, and Filipinos. Other groups include Afghans, West and central Africans, Greeks, Turks, Sir-Lankans, Malaysians, Indonesians, Palestinians, other Arabs, and of-course the Western group led by the Americans (45,000) followed by the British (30,000), the French (8,000), West Germans, Canadians, Italians and other Europeans. The ramifications of such a multinational workforce can be imagined by the reader.
- All foreign workers arrive in Saudi Arabia under the sponsorship law in which a Saudi employer 'sponsor's such an employee and is responsible to the government for the actions of the foreign employee. Thus a foreigner may

only come to work in Saudi Arabia if sponsored by a Saudi and must only work for the Saudi sponsor. The employing Saudi sponsor will have agreed terms before arrival of the foreigner. If the foreign worker is unhappy or wishes to work for another employer he can only do so by consent of the original employer or by remaining out of the country for one year. This has given rise to the phenomenon of 'sponsored labour'. Unhappy with his pay having perhaps compared it with what others are getting; such an employee may either 'moonlight' or not give his total effort to his employer.

- Some uneducated Saudis with easily obtainable commercial registrations have exploited some foreigners particularly those from the sub-continent by agreeing terms overseas which seemed attractive at first; with the foreign worker later discovering the one-sided nature of the contract. Some such Saudis have also illegally traded in foreign labour.

This brings us to another phenomenon namely the process of getting clearance to import foreign workers, and the consequent issue of their entry visas. The issue of work permits and the associated entry visas for foreign workers can be a very complicated and beauracratc affair. It can take many months before a request is approved and authorized. In many cases six-months between the inial request and the final approval is not uncommon. The delay in granting work permit visas has affected almost every business in Saudi Arabia and has made management's

task more difficult. This has resulted in a situation where some Saudis with a commercial registration but little else, other than patience or good 'connections' practiced an illegal and undesirable black market trade in such 'visas'. Ready buyers were found among contractors and others with deadlines to meet. Delays in visa processing can partly be explained by the necessary increased government scrutiny brought about by the many unjustifiable claims for work permits. The government had also announced that it would heavily penalise anyone found exploiting the labour market. Since the law prevents the transfer of a work permit or sponsored person from one employer to another, the practice was to 'sell' the 'visa' to the visa buyer, with the buyer accepting that the actual paperwork transfer be delayed until the year had lapsed.

Other 'briefcase' businessmen as they were called by a government official would bring in foreign labour knowing full well that there was no employment for them nor any possible salaries. The 'brief-case' businessmen would then "loan" the worker to a company or business in need, charging the worker, the other business, or both.

- With the expansion of the labour market, variations in salaries - even for the same profession - and the willingness of some employers to give higher salaries or better incentives, there was a great incentive for some labourers to escape the original employer and

change jobs. This was facilitated by the reduced risk of being discovered through the escape to distant city centres. One estimate put such 'escape labour' in the Kingdom at 15,000.

- Recruitment of foreign workers particularly Asians is also invariably undertaken by a manpower agent in the workers country of origin be it Bangkok, Bombay or Karachi. It is not uncommon for such recruiting agents to charge an almost penalizing fee on the prospective labour applicant as a tax or commission for selecting him to go to Saudi Arabia on behalf of the Saudi company who may or may not know that its agent carries out such practice. The agent naturally charges the Saudi company for the selection on a per head basis.

- A large majority of the Kingdom's Moslem labour force are pilgrims (ex) who decided to remain for work.

Others came on an "Umrah" visa^{*} to perform the pilgrimage out of season, with the same end-result. Some of the Indian and Pakistani Moslems get (illegally) clerical jobs but the vast majority join the pool of casual labour readily exploited by margin-shaving contractors as they have no sponsors. The government has taken many measures to ensure that such pilgrims leave the country as soon as the pilgrimage is over, including the impounding of passports on entry and the obligation that all foreigners (and Saudis) must carry papers on them everywhere, so that spot checks can be

* 'The Dilemma of Saudi Arabia's dependance on Immigrant Labour' FinancialTimes, London, July 25 1978.

carried out.

- Government policy towards foreign workers appears uncertain to an observer. The extent of dependence on foreign labour is often played down. Thus the government estimated that the Third Plan 1980 - 1985 can be achieved by 1% increase in foreign labour per year but manpower economists J.S. Birk and C.A. Sinclair estimated that the Third Plan will require expanding the foreign workforce by 5% a year. Thus the country is likely to overshoot its target for the growth of the foreign labour force. This could intensify the friction in the Saudi dual economy.

The government however clearly has reservations about the size and presence of the foreign labour force.

These reservations stem from the following:

- a) that at least some of the foreign workers could spread undesired political ideas alien to the Saudi culture and system;
- b) the foreigners could place an unnecessary strain on the social and moral fabric of the country with its traditional Islamic culture;
- c) the tremendous strain put on the Saudi welfare state system. It is believed that the main beneficiaries of free health and education, subsidized foodstuffs, infrastructure demands and pressure on utilities are

the foreigners. Consequently only highly skilled expatriates would in future be allowed to bring in their families. Prince Naif (Interior Minister) has stated that although the Kingdom faced serious labour shortages, the requirements of internal security must come first.

- It has been suggested that a possible satisfactory solution to the problem of how to import labour without causing social disruption is to rely on certain types of foreign labour such as South Koreans, Filipinos and Thais. Not only are such workers extremely diligent with astonishingly high rates of productivity and, among the Koreans, military-style discipline but they show little inclination to mix with other people and prefer to stay in their camps, which are often at isolated spots deep in the country. This preference for Far Eastern labour has been reflected in the awarding of major contracts. It was also most inevitable that nationality stereotyping would take place and that certain nationalities would today be preferred over others for certain types of work by the Saudi employers.

X.3 Comparing Manpower Management

Introduction

Reference has been made earlier to the fact that our interest lies in investigating manpower management practice cross-nationally in the wide sense of employment, compensation - education and training and industrial relations. We have also included motivation in this area.

In the West the function is managed in a number of ways. It can either be an entirely line responsibility or it can be a specialised unit providing advice or advice and service or it can be a unit which is given responsibility for making final decisions in some or most areas. The most common form is apparently one that involves a specialised unit giving advice and service. Traditionally this function has been a neglected area and was limited to basic needs involving training, recruitment, welfare and industrial relations officers. Today however the human relations model or school seems to be the trend. This school which is also neo-paternal or neo-humanitarian apparently follows the line of logic that participation in decision-making leads to improved satisfaction and morale and therefore to lower resistance and improved compliance with formal authority and it seems to better performance and productivity.

A.Y. Abouna reviewed current practice and trends in personnel management. Many writers apparently consider the present approach to personnel management as ritualistic and mechanistic, as being a primarily house-keeping capacity or fire-fighting . . . as acting in isolation from other organizational functions, as being maintenance of status-quo oriented rather than productivity-oriented, as continuing to be somewhat welfare-oriented, insufficiently scientific, insufficiently sensitive to internal and external conditions and as continuing to employ managers and specialists on the basis of experience rather than education and training.

Relatively recent trends noted in the manpower management function include:

- Greater emphasis on manpower as the most valuable organizational resource and more interest in manpower planning, development, utilization, deployment, and motivation.
- A systems approach whereby all internal and external factors are considered with a greater integration of the function into the total organization and into organizational objectives.
- More productivity, profitability or goal orientation in practice and techniques.
- More professional personnel managers trained in

personnel, behavioural, economic and other relevant subjects, a higher status and prestige for such managers and more attention in general to managerial personnel.

Environmental factors both internal and external which have contributed to the changes in the nature, status and practice of personnel management include increasing size and power of trade unions and complexity of industrial relations, increased government intervention in employer-employee affairs, changes in the social climate, values, attitudes and life-styles, increasing automation, increasing size and internationalization of companies, changes in labour-market and employment conditions, rising level of pay and manpower costs and the better training of personnel managers.

X.4 Nature and Significance of the Manpower Management Function

The Manpower Management function or the management of personnel affairs is very much influenced by the environment of the organization and this is especially true in Saudi Arabia. It is in the context of the predominance of foreign workers in Saudi private industry and the authoritarian nature of Arab managers described earlier that the management of personnel affairs has to operate.

In all the Saudi companies examined the emphasis was on basic issues such as recruitment and the issue of work

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permits and entry and exit visas, housekeeping and personnel records. There was little evidence of attention to training and development, industrial relations, incentives, motivations, job evaluation or job description. Manpower planning which is in our view almost essential given the manpower situation; is also strangely absent. Recruitment and work permits tend to overshadow other vital manpower issues. Recruitment however is also one of the weakest areas in much of Saudi management. This is damaging to the firm since much of final recruitment results in second and third rate skills and people. Faulty recruiting policy and practice - not uncommon - can cost the Saudi firm much in time and money.

In general, manpower management in Saudi Arabia is also a function of the Saudi labour law, employment contracts, company 'house' rules and regulations (where they exist) management values, attitudes, education, competence and philosophy. Manpower management is also influenced by inherited traditions, owner's requirements and by the non-delegating authoritarian nature of most Arab managers.

The responsibility of the function varied in the Saudi companies but no firm had a personnel manager or officer as such. In the newspaper the editor and his administrative assistant dealt with most personnel matters except financial ones which were looked after by central administration. The present editor found on taking up office that too much of his time was taken up dealing

with minor personnel matters such as housing and transport as a middleman; since almost all decision-authority was then confined to central administration. By taking the matter to the chairman of the group almost all decision-making authority on personnel matters was transferred to the editor's administrative assistant. The Saudi printing company again did not appear to consider the personnel function too important. Administrative and personnel affairs were treated jointly, with personnel affairs being mainly house-keeping matters such as records etc. The car importer in Jeddah also seemed to take a very traditional view of the function. Personnel affairs was also a minor part of administrative affairs. The cable company in Jeddah has tried to organise the function along modern lines but one suspects that they may have faced problems in this. The function is handled by the Business Manager along with other business matters.

In Britain there were noticeable difference over Saudi firms in some areas of the function such as areas of training and development, industrial relations and employment affairs. We found that some of the British firms were still practicing some elements of a paternal or authoritarian management style (cables, car importer, newspaper, printer) although in some of the companies gradual but significant moves away from this were noted (the car importer after its takeover, the cable company after the death of the old managing director).

At the British cable company the function was formally headed by the personnel officer a position which did not exist before 1978 and during the old managing director's rule (the old M.D. handled most personnel affairs through his secretary). The personnel officer is an ex-CID man with a good experience of people and records. He reports to the assistant to the managing director informally although he should report direct to the managing director. In fact the assistant to the managing director formulates much of the new policy.

In the printing company and again only since very recently there is a part-time woman personnel manager who reports to the managing director. The function appears to be well-managed. In the newspaper there was no personnel manager as such but personnel affairs were handled by the managing editor's office with administrative affairs. The local union covered most of the editorial staff demands.

At the U.K. car importer the function was not rated very highly before the takeover. In fact management had complained of compensation levels during our first visits but it is still far better than the situation with the Saudi car importer.

The significance of the manpower management function in both countries is summarized in Table .

X.5 Employment

We first investigated the degree to which employment practices followed pre-determined and formally specified policies.

We found only two Saudi companies with some form of rules, regulations and policies with a handbook covering employment and other manpower affairs (the newspaper parent group and the Saudi cable company). All the British companies examined however had some form of policy statement or handbook.

Our next investigative area was the sources of manpower supply. Saudi Arabia in general and private business in particular suffers serious national manpower shortages in all categories of professional skilled, semi-skilled and unskilled people. The result of such national shortage is that in every single Saudi company examined, well over 95% of employees from labourer to general manager were imported foreign manpower .

This phenomena, as described earlier, was brought about by the inadequate size of the national Saudi workforce, inadequate skills within this limited workforce, and a massive national development programme requiring thousands of skills more or less immediately. It is also to a lesser extent the result of insufficient manpower planning. Thus a national manpower shortage

can be said to exist. This is temporarily being overcome by the import of foreign manpower from at least a dozen nations. The situation with the British firms examined is entirely different. National manpower supply shortages are not a serious problem. Most firms are able to find workers from within their region. Any shortages are in specific skills and of the type common in any industrial national and may be industry-specific. The situation for management staff is similar to that of labour in that both need to be imported in most Saudi companies; while both are not in serious national shortage in the U.K.

Thus among other reasons accentuating the shortages of Saudi skills we include:

- the tremendous pace of the oil-inspired national modernization and development programme and the great demand it creates for thousands of jobs and skills;
- inadequate national manpower planning;
- the high turnover of Saudis;
- the high turnover of foreign workers and westerners in particular;
- poor utilization, poor placement, poor motivation, poor training and poor productivity;

- the 'wrong' attitudes to certain types of skills and work by Saudi youth;
- over-staffing and underutilization in the government sector;
- incompatibility of attitudes with the requirements of industrial discipline and industrial society.

Recruitment of foreign staff and labour in Saudi companies is one of the most important areas of manpower management. It is also the most neglected area, as observed in the Saudi companies investigated. In relative terms the Saudi cable company and the car importer showed somewhat better recruitment and selection practice than the rest.

Essentially the need for manpower skills is first established. The company will invariably then need to import such manpower and would need to apply to the special bureau in charge of such permits at the interior ministry. This can take anything up to six months or more. The company has to show that it is in real need of such foreigners. Once the permit has been granted the process of advertising and recruiting overseas

Depending on the nationality preference of the Saudi company which is partly related to its management attitudes and the stereotyping of certain nationalities,

the permits issue, would be specific to a certain country and certain skills.

What we have found surprising with two of the Saudi companies (newspaper, printer) was the way in which skilled labour was recruited; a practice which is apparently not uncommon in other Saudi companies, particularly in the recruiting of Asians. The printing company for example has a manpower agent in Bombay and Karachi. The agent is told that five key-board operators, five typists and five drivers are required for example. No one at the Saudi printing company normally bothers to go out to India or Pakistan. The agent would then 'sell' the opportunity to work in Saudi Arabia to almost anyone with 500-600 rupees. A medical test may or may not be given. The problem is that many interviewed sub-continent workers had no previous experience of the job for which they were applying and this was not necessarily considered a problem by the agent. The consequent problem for management in Saudi Arabia can be imagined.

Local advertising for labour is rare since such 'sponsorship free' labour would if available require much higher wages and benefits than imported sponsored labour. Reference has been made to the recruitment by the loan system whereby a sponsored worker no longer required by his original sponsor may either be legally 'loaned' to another firm or have his sponsorship completed transferred. Other sources of labour mentioned

earlier include people who stayed behind having completed their Haj or Umrah pilgrimage visits. The recruitment of such people is illegal but does occasionally occur in the casual labour market.

With the Saudi Cable Company and the car importer, in general, an experienced senior manager is sent overseas to do the recruiting with clearly better results than is the case with the other two companies. Staff and management recruitment in the Saudi companies investigated was again hap hazard.

In the cable company the managing director, a U.S. national was loaned by a U.S. partner/owner. The general manager, a Saudi, was recruited by the chairman personally. Managers reporting to him included a Lebanese materials manager (recruited by advertising from a Lebanese cable company) an Egyptian production manager (recruited by a special visit to the largest cable company in Egypt) and the business manager - an Indian-origin U.S. citizen with a business degree who was recruited by the chairman (his classmate at a U.S. university). At the Saudi car importer, the general manager, a medical doctor, was recruited personally by the chairman who had known him for many years in Egypt. The functional managers covering administration, finance and sales, technical and parts departments (all Egyptian) were then recruited by the General Manager. At the printing company the General Manager (an Egyptian) was again a friend of the chairman.

His top managers were recruited personally but supervisors and technical departmental heads mostly Asian were not always properly selected. At the Saudi newspaper the top staff are British, American and Indian. This company has given us a good insight into the recruitment aspects and general problems involved with western expatriate staff.

There are 45,000 Americans and 30,000 British people working in Saudi Arabia. In general they have been recruited for their special management and technical skills. The problems that can arise for such western expatriates in Saudi Arabia could in many cases, have been partly avoided by proper recruitment and selection techniques. The high turnover of such staff is a symptom of the difficulties they can face and the inability by many to adapt and orientate to the local environment.

To begin with the environment of Saudi Arabia is totally different from say the British environment. Many social and cultural and even professional restrictions exist in Saudi Arabia for the westerner all of which can have a demoralising effect on the unprepared expatriate. Attitudes and values are sharply different. Saudi Arabia is an Islamic traditional conservative country that values its heritage and traditions and fears the undesired influence of western morals and morality. This is reflected in government policy towards public morality and its strict regulations obliging foreigners living in the country to respect the country's traditions.

The editor and chairman of the newspaper (which relies to a great extent on western staff) were in no doubt as to what was their most important management problem. Both mentioned the high turnover and instability of western staff. This affects the planning and consistency of the newspaper. To a very large degree and over the last three years western staff rarely completed their contract term of two years. Many arrived and left within the first year. The previous editor - a generous and kind person even faced a near strike by British staff during an overseas absence (strikes are illegal in Saudi Arabia). The new editor witnessed some of this high turnover and instability particularly with inherited staff. Recruitment trips to Britain, India and the U.S.A. by the editor or senior editors were very frequent (almost every two or three months). With the cost of placing of high-level expatriate managers running between two and three times their annual salaries and attrition or wastage rates at around 50%, selecting the right people to work in the area has become a sophisticated business. Since this was the only company with many western staff in our sample and since the newspaper group has been particularly unsuccessful in handling manpower problems, central administration throughout always taking bureaucratic attitudes, it may be clearly prudent not to generalise. However, as a Saudi with much contact with the business world and with other companies one can safely say that at least some of the instability and high western turnover can be related to some national common problems. This

very high turnover of staff was not observed in the British newspaper (except apparently with sub-editors at the British newspaper, a group which will apparently move on to the highest bidder particular to Fleet Street) and certainly not to the extent in Saudi Arabia. Nor was such a high staff turnover observed with other British companies in the sample. Furthermore managers in the Saudi companies of the sample who were not westerners (e.g. Egyptians) showed greater relative stability and most invariably completed their contract. Some renewed their contract. Since such managers tend to be Middle Eastern (and sometimes Far Eastern) this lead us to suspect that the closer cultural similarity of this group with Saudi culture (using 'culture' in the wider sense of the term) compared with the greater dissimilarity of western culture with Saudi culture may have played a role in this situation. Certainly the expectations of westerners (and their minimum acceptable terms) in Saudi Arabia are higher and thus the disappointment is correspondingly so.

What then are possible reasons for this situation?

Among possible reasons we have been able to identify the following:

- The desire purely and simply to make money is not enough to sustain a western executive through a two-year assignment in the Middle-East. Technical skills are only the first requirement. Equally important is the candidates personality. Unfortunately, there

also exists the 'gold-digger' phenomena with many foreigners and westerners in particular seeing a few years expatriate work simply as a means of earning a sum of capital, usually tax-free. There is a very strong 'look-back' factor with employees of all nationalities counting the months until they can return home, with westerners particularly hoping to get back before they are considered professionally out of touch back home.

- Many western expatriates are unable to adapt to the tremendous environmental differences between their countries and Saudi Arabia - using 'environment' in the widest sense - and also find the country's social, moral and other restrictions inhibiting.

- Many western expatriates find the limitations on their professional ability inhibiting.

- Many western expatriate problems relate to the particular company they are with. In general Saudi companies do not always offer the remuneration package expected by international executives certainly not as well as some foreign companies in Saudi Arabia on special projects. Some western expatriate seemed unable to appreciate this. Some compared their salaries in the Saudi companies with the high wages British construction workers in Saudi Arabia were getting in the property development rush of post - 1974.

- Some Saudi companies such as one case study example failed to appreciate sufficiently at first the differences between western and other Asian nationalities and their different expectations. Such companies may have also practised, as with the case study, bad examples of beaucracy and red tape with insufficient attention and after-care service to the housing, transport and other problems expatriates may face. Needless to say the plumbing and electricity for example can in a developing country be more troublesome than in London say (an expatriate should expect this however).

The newspaper had apparently been unlucky through incorrect previous recruiting by attracting some of the worst types of British employees, mostly third rate in Britain itself, union-minded, somewhat colonial in their outlook and derogatory of local customs and traditions.

This brings us back to the critical importance of good recruitment and selection policy in employing western staff in Saudi Arabia particularly from Britain.

One experienced U.S. Based executive search company asks such questions as : Is he patient? Is he persistent? Is he flexible? Is he adaptable? Has he got a good sense of humour?

Cultural empathy is a good indicator of a candidate's overseas prospects. An expatriate's ability to understand and accept the socio-cultural differences is one way of

measuring his cultural empathy. There is no easy way to determine in advance the extent of a manager's cultural empathy. One indicator is perhaps language-learning ability.

Recruitment in Saudi Arabia can be subjective and ne^optism to some extent does exist in Saudi Arabia but we believe that provided that the person employed is capable of the job it is not necessarily dysfunctional. This can result in greater loyalty and while personal loyalty on an extravagant scale can be potentially damaging, it is also one of the most positive features of Arab business organization.

Recruitment in Britain on the other hand is more objective. In the British companies examined, labour, clerical and junior administrative staff were mostly locally recruited. Senior and middle management were advertised for and recruited on a nationwide basis. Selection and recruitment criteria are better designed and specified than is the case in Saudi Arabia.

Promotion practice was very limited in the Saudi companies. Many foreign expatriates do not stay long enough to get promoted. Good Saudis get promoted very quickly, e.g. the newspaper. Promotion decisions are normally the authority of the chief executive. Promotion can also be subjective; and personal relationships particularly in companies managed by Saudis and Arab expatriates can play a large role. Appraisal and assessment was only

systemised at the Saudi cable company. Ad hoc appraisal was practised at the printers, resulting in some annual increment in salary. The Saudi newspaper which is obliged to follow the group's rules and regulations has annual 10% increments for the foreign staff which were automatic. Saudi staff automatically moved one grade up every year. This involved an increment of about 5% a year. In general the short term views taken by the employer towards the presence of the foreigner and the foreigner's own short-term attitude to his presence in the Kingdom was reflected in the reduced importance of such matters as promotion, assessment and appraisal in Saudi Arabia.

In the British companies examined promotion and appraisal practice was expected and found to be more systematic objective and less personal. Its place and significance was also greater than the neglected state found in Saudi companies and referred to earlier. Appraisal practice in the British firms was however 'patchy'. Disciplinary action in both countries followed set procedures even in Saudi Arabia where the labour law gives many rights to employees in this area. The Saudi firms examined all had 'house' rules and regulations covering disciplinary action. The companies also need to contend with the comprehensive government labour law. In Arab-managed companies disciplinary action can be harsh particularly on employees from less developed countries. This may or may not be dysfunctional, we are merely stating on

observation. In the British firms examined disciplinary action was subject to government employment law, company house-rules and union-company agreements. Disciplinary action was more common in the Saudi companies.

Dismissal in Saudi Arabia can be particularly harsh since it would also invariably involve deportation to the country of origin. It is therefore only used as a last resort.

Table gives a summary of U.K. and Saudi company comparisons with respect to:

- the specificity of personnel policies;
- the adequacy of manpower supply;
- the effectiveness of labour recruitment practice;
- the effectiveness of staff recruitment practice;
- the objectivity and suitability of the criteria and methods used in promotion and appraisal or assessment;
- the extent of use of disciplinary action.

X.6 Compensation

The compensation system in Saudi Arabia is clearly influenced by the societal environment as well as by management or company attitudes and policy. The sponsorship law which may allow foreign workers to be paid less than they would expect to get on the 'open-market', based on current supply and demand trends, is a case in point since the law is part of the environment defined as socio-legal-economic and political factors. (It should be noted that the 'open market' is relatively small compared with the 'sponsored market').

Today compensation is normally taken in the wider sense covering not only basic salary or wages but also fringe benefits, incentives, rewards, bonus and merit payments and others. Advertisements write of the 'remuneration package' rather than just salary. The compensation levels a person receives need to be equitable. Too little can create resentment and less commonly too much may lead to insecurity.

Compensation should also be related to job content. The remuneration package is also influenced by certain factors including differences between companies, industries and countries particularly differences in income levels and in national prosperity but is also related to the taxation system, the strength of the desire to attract and retain people, the social system

and its values and the general attitude to work and leisure.

The majority of private sector employees in Saudi Arabia are foreign expatriates who have left their countries in search for better material well-being. The compensation they are getting is therefore in most cases far better than what they had previously earned. This is true in all four Saudi companies. The foreign employees are able to save significant amounts of their salary and the total remuneration package in most cases includes arrival and departure ticket, one month holiday including free air-ticket, annual increments for same, medical and social insurance, free housing and transport. No serious complaints on salary levels were noted particularly as over-time and outside part-time work is sometimes allowed by the original employer. Some complaints can be classed under the desire to earn even more or through resenting the fact that even more can be earned if one was 'sponsorship-free' and hence free to sell one's skills on the 'open-market'. This however is not realistic since the majority of foreign workers are sponsored and are not in the 'open-market'. Payments in the 'open-market' can today go up as well as down and serves as a guide to the shortages or otherwise in certain skills and occupations. Saudis (not being sponsored) are 'open-market' products and can, if skilled, normally command better salaries than foreigners (although not necessarily better benefits). One noted observation is the large gap that exists between

payments of the lowest and highest employees in a Saudi company. Three of the four Saudi companies had a system with gradings based on classifications of jobs and skills. Gradings are only loosely based on job content. Another noted observation is the system of payment according to nationality. Thus one can obtain a sponsored imported driver from India for 1000 Riyals per month; a driver from say Yemen or Sudan would however expect and possibly receive a higher salary. Labour however is sought from the cheapest source by many companies without necessarily any regard to quality differences. At the Saudi newspaper there were different salaries for sub-editors. British sub-editors received more than Indian sub-editors. No one however will argue that the quality of the average Indian sub-editor is equal to the quality of the average British sub-editor particularly since the subbing is in the English language. A prudent balance is kept between both types of sub-editors to avoid destabilising the newspaper's production. British sub-editor are notoriously unstable and have a high turnover while the Indians are not so unstable.

At this newspaper fringe benefits were equal. All staff had similar housing and for example equal use of recreation facilities. Many companies in Saudi Arabia however discriminate in their housing and other benefits also on a nationality basis. Again this need not be more than a reflection of the different expectations with employers applying minimum-cost-to-retain basis.

Another noted observation is the large gaps between payments in the government sector and the private sector for similar jobs and skills. This has resulted in many well-qualified Saudis resigning from government and either taking up employment in the private sector or going into business for themselves. Semi-government corporations such as the national airline the Saudi Arabian Basic Industries Corporation and the Minerals Organization pay somewhat better salaries than the ministries.

Motivation is certainly related to the societal as well as the task environment. Motivation is related to attitudes and expectations of employer and employee. Not only are different people within one country differently motivated but nationals of different country may also have different types and hierarchy of needs and motivations. The situation in Saudi Arabia is complicated by the fact that foreign workers predominate in Saudi industry. Thus within a single company there may be up to a dozen nationalities. Managers themselves within a single company may originate from up to half a dozen nationalities. The permutations that are possible can be imagined. However to simplify even a Saudi manager dealing with subordinates from half a dozen countries needs to be aware of the hierarchy of needs and the motivators for all such country nationals in order to practice effective motivation.

The Saudi editor did not have a single Saudi subordinate.

Instead he had to deal with British, American, Egyptian, Indian, Pakistani, Somali and Eritrean nationals. This is not uncommon elsewhere. It seems however that financial motivation (varying by different degrees with different nationalities) is fairly effective and common to all nationalities. Promotion possibilities is also a good common motivator and has been used in the Saudi newspaper at least. However, there were no profit-sharing-schemes, wage-incentives-schemes, or output-related-schemes in the Saudi companies examined and we believe that very few, if any, exist elsewhere. Overall motivation is not considered as vital in Saudi companies as it is with British firms.

Compensation systems in the British firms examined were better than the industry average in all firms except the car importer although we understand that matters may have improved since the takeover. In general both the national unions in Britain and the local unions in the companies examined play a large role in pay agreements. In all the British companies there was an annual review of the company-union agreement. We also concur with Abouna about the following general features:

- In Britain compensation systems are complicated by traditional differences in pay, benefits and other conditions of employment between staff and labour. There is today an expanding grey area between the two.
- The personality of the man played a role in determining

salary over and above the level of the post and its job contents. There is however a trend towards the specification and systematisation of salary grades.

- Salary schemes in Britain are not necessarily based on systematic job evaluation although job-evaluation basis has been increasing.

- U.K. staff salaries seem to be reviewed annually and where staff unions exist, through union-company regulations. Non-unionised management salary scales tend to follow.

We would conclude that salary schemes and wages schemes in Saudi Arabia were moderately systematic and equitable but were non-uniform to industry. They were more systematic and uniform in British firms. Incentive schemes were ad hoc and not extensive in Saudi firms and were only moderately better in British firms. Fringe benefits were on minimum satisfactory terms in Saudi Arabia but were better in British firms.

X.7 Training and Development

In all the Saudi companies examined . no training and development programmes were noted. The Saudi cable company tried sending three students abroad for training but gave up when two trainees dropped out and the third completed his course but decides to work elsewhere.

As can be gathered from the earlier review of the manpower situation in Saudi Arabia, this area is a major weakness in the country. Nearly all employees are recruited abroad and only trained workers are sought. If, as can happen, such workers are not sufficiently experienced, on-the-job experience is the only recourse. Extensive training for foreign temporary labour and staff (which in any case comprises a majority) is not considered worthwhile for obvious reasons. Vocational schools do exist in Saudi Arabia but have a difficult time attracting sufficient students since the latter aspire to other types of jobs, mostly desk jobs or self-employment. Training in skills is one of the most difficult challenges the country faces.

Training and development in Britain on the other hand and in all the companies examined was very well organised and systematised. This is clearly a far more advanced activity in Britain. The case studies cover actual examples and types of training.

X.8 Industrial Relations

The industrial relations scene in Saudi Arabia is very much a product of the socio-cultural-legal-political environment. The country is a relatively recent one and, despite its oil riches, still developing. There is no labour movement or union history as is the case in Britain. Such an evolution can take many years and less developed countries which have unions tend also to

have weak or political unions more or less following the government or party line.

In Saudi Arabia and in order to protect the rights of workers the government had legislated a very comprehensive and equitable labour law, regulating the relationship between employer and employee. Examples were noted (e.g. the newspaper) among the Saudi firms of successful cases being brought against the employer by expatriate employees.

Again the context of the manpower structure with its dependence on foreign workers in Saudi Arabia should be kept in mind. Unions are illegal in Saudi Arabia since the labour law guarantees the basic rights of workers but fortunately while still being fair to employers - unlike the case in Britain where present legislation is more in favour of employees than employer.

The state of industrial relations in Britain is a complex area that has been well-covered and documented. Among the four British companies of our sample, the state of industrial relations were very good and strikes were rare.

Industrial relations in Saudi Arabia are calm since most workers are foreign expatriates and few want to agitate being more concerned with their livelihood. Utilising the labour law where basic rights are in disagreement, is always possible however.

Summary of Companys' Manpower Practices

	News-Papers		Cables		Printers		Car-Importers	
	UK	SA	UK	SA	UK	SA	UK	SA
Personnel management	2	1	2	1	2	1	1	1
Personnel policies (specifically)	3	3	3	2	3	2	2	1
Manpower supply *	3	1	3	1	3	1	3	1
Labour recruitment	3	1	3	2	3	1	3	1
Staff recruitment	3	2	3	2	3	2	3	2
Promotion practices	2	2	2	1	2	1	2	1
Appraisal schemes	2	1	2	1	2	1	1	1
Disciplinary action	3	2	2	2	2	2	2	2
Salary schemes (equitable?)	3	2	3	2	3	2	2	1
Wage schemes (equitable?)	3	1	2	2	2	1	2	1
Incentives schemes	1	1	1	1	1	1	1	1
Fringe benefits	2	3	3	3	2	2	2	1
Motivation	2	1	1	1	2	1	1	1
Training and development	3	1	1	1	2	1	3	1
Unions	3	1	3	1	3	1	3	1
Industrial relations	3	2	3	3	3	2	3	2

3 = High, strong or good
 2 = Moderate
 1 = Low, weak or poor.

* Compensated for in Saudi Arabia only by import of workers.

CHAPTER XI

CONCLUSIONS

Introduction

In general, the study was prompted by a realization of the important role management can play in the economic development of third world countries and by our query as to whether the wholesale transfer of modern western management know-how normally found coupled to modern western technology is feasible on practical grounds given the different countries and their different stages of development.

Essentially our work sought to confirm that managerial practices are affected by and differ with the societal environment and that same patterned differences could be observed to exist between management practice in Saudi Arabia and comparable British firms, and that by implication the transfer of management know-how requires an understanding of and on adjustment for differences in the environment.

However we were also keen to identify some of the significant environmental constraints to effective management in Saudi Arabia.

Due to practical limitation on a work of this nature

conducted by a single researcher among companies in two very different cultures including problems of time, accessibility and language, we proposed to investigate only those management elements which offered the greatest cross national contrasts and/or were of critical importance to effective management practice in Saudi Arabia. Since Saudi Arabia is in many ways still a developing country and suffers from insufficient and scarce management research information we also considered it more useful to confine this work to a data-building descriptive and exploratory examination of the selected management aspects.

The study was slanted towards Saudi Arabia since much less is documented about management in that country and much more is needed. In fact a separate country volume on Saudi Arabia (Part I) was included not only to serve as background information for a reader of this work but also as a general country reference study for future researchers on economic and business aspects in Saudi Arabia.

To achieve our general objectives we have used two research approaches, the Farmer-Richman adapted Delphi technique for identifying critical environmental constraints to management and the Negandhi-Prasad comparative cross-national case study approach for investigating the basic management elements. Five management aspects were examined cross-nationally namely the inter-actions between a firm and some of its external task agents, and the basic management functions of organisation, planning control, and manpower management. The manpower situation and the

manpower management function were singled out since not only did they offer sharp cross-national contrasts with the overwhelming predominance of foreign workers in the Saudi Arabia private sector but the function is also, in our view, of critical importance to effective management in Saudi Arabia and is one that ^{is} today presenting severe problems for many Saudi firms.

Although seven pairs of case studies were originally attempted only four pairs proved satisfactory for inclusion due to serious problems of matching, accessibility and reliability of data. No claims are made that such a limited sample is itself representative. However given other factors including the result of the Delphi questionnaire case studies that were investigated but rejected for technical reasons, the extensive use of secondary sources of material and references and the authors own position as Editor-in-Chief and de facto General Manager of a daily business newspaper in constant touch with the Saudi business world, we felt that overall our study did confirm the general proposition that much managerial practice in Saudi Arabia is affected by and differs with the societal environment and some patterned differences have in fact been observed to exist between management practice in Saudi Arabia and the UK.

XI.2 Summary of Results

The Farmer-Richman Delphi technique for identification of critical environmental constraints.

Farmer-Richman categorized the societal environment into four main areas namely educational cultural, sociological-cultural, legal political and economic factors. Within each area or group a number of variables or constraints are listed. The nature of each variables or constraint and its relative importance or ranking would indicate whether such a variable was a positive or a negative factor to effective management.

All results based on the selected expert's opinion showed that educational cultural factors were the weakest area in Saudi Arabia with a score of 65/250. Major negative factors were the low literacy rate in the country (20 - 30 per cent). The weak vocational and technical training, the relatively small number of higher educated Saudis, the virtual absence of special management development programs and mismatch of graduates qualification with the country's requirement. An encouraging factor was the positive attitude towards education adopted by most Saudis.

The next weakest area to show relatively negative contribution to management was the sociological-cultural group with a ranking of 125/250. Significant weak factors here include the poor inter-organizational co-operation of Saudi institutions, the uncertain attitude towards change. Positive factors in this group includes the favourable attitude towards managers, the respect for authority, the lack of a class structure, the positive attitude towards wealth and material gain and the positive attitude towards achievement by significant minority ethnic and geographical

groups.

The economic group of environmental constraints were ranked third with 150-250. The major weak area here was the lack of organized capital markets, the unsatisfactory role of commercial banking relative to the needs of the business community and the uncertain and confused role of the insurance business. Other variables which were mostly positive included the Laissez-Faire nature of the Saudi economy and the government's active encouragement of the private sector, the ability and willingness of the government to use monetary and fiscal expenditure policy to control aberration in the economy, the relative economic stability, the abundant oil revenues and the tremendous recent improvements in infrastructure and public utilities.

The legal-political group of variables with a score of 190/250 was found to be (as a group) the least constraining to management in Saudi Arabia. The major weakness here however was the negative effects of centralization, red tape bureaucracy and the uncertainty and confusion in industry-government dealings.

Interactions with External Agencies

The external environment appeared to have a strong influence which was less easily shaken off with some external agents compared with some others. Thus there was strong environmental influence in the firm's interactions with owners, government, industry and competition and community. Direct owner

involvement were stronger in the case of the Saudi firms.

Company government interactions were also more critical in Saudi Arabia particularly in such key areas as the issue of foreigner work permits and commercial and industrial regulations including the issue of business or industrial licenses. Such interactions which are indirectly related to the developing state of the country can prove frustrating for many firms through frequent civil service delays and red tape. Unlike the case in Britain interactions with industry and competition in Saudi firms is practically nil. This can be related to the relative youth of the country and its industry. Community interaction by Saudi firms are not significant compared with the situation in British firms. There is a greater and growing awareness of social responsibility in British business. Such differences are also a reflection of the different stages of development in the two countries.

Imported concepts and techniques in the above areas require much more regard to the different overall environmental conditions and constraints. Direct transfer of Western concepts is therefore likely to be more difficult in the short-run in such cases.

Company interactions with distributors, customers and suppliers occasionally reflect opportunistic short-sighted management such as preferring short term objectives and ^{lowest} price over quality or security and stability with suppliers. This is more a result of unsophisticated

management. However the above interaction areas are less strongly environmentally deep-rooted or of cultural nature and therefore with management education and or sophistication the import and perhaps slight modification of advanced concepts and techniques may overcome the negative aspects in a relatively shorter term.

Organization

Patterned differences were observed in organizational aspects between Saudi and British firms which were related to societal environmental differences. The environmental causes for such differences are of such strength that the direct import and adaptation of western organizational concepts in the short-term are likely to be difficult and in any case not necessarily desirable. In the relatively longer term such Western concepts which have evolved with the evolution of industry in Britain may need to be adapted by Saudi industrial management particularly as such Western concepts are today normally found coupled with the Western technology that is being sought. Major organizational features reflecting significant environmental influence in Saudi Arabia include the concept of authority and its practice, and consequently the concepts of delegation decentralization and leadership.

The dictatorship of the chief executive, the centralization of authority and the refusal to delegate or decentralize seems to be a middle-eastern characteristic as well as a Saudi organizational one.

British management is more advanced in such organizational aspects although the early industrial history of Britain did show similar organizational features to those observed in Saudi firms today.

Planning and Control

A number of significant patterned differences were observed in planning and control practice among Saudi and British firms. Such differences can be attributed to environmental differences both of an educational-cultural and a sociological culture nature. Both areas however are technical in that the import and adaptation of Western concepts of planning and control although difficult is not however impossible. Little significance was attached to the planning function in Saudi Arabia. Only short-term and to a lesser extent medium-term planning was practised. In most cases this meant no more than the annual budget.

We relate this to the lack of management sophistication particularly in the 'Arab-Managed' Saudi firms. This weakness in Saudi firms is not deep-rooted or extremely difficult to shake off however, being more dependant on management know-how or the lack of it. There is thus more hope for shorter term improvements in this area through education and the importation with slight modification of Western concepts of planning.

The control function also showed sharp differences in conception and practice between Saudi and British firms.

This was again more related to the lack of competent management know-how including a proper appreciation of control methods, techniques and tools.

We have noticed a misconception of the control function in Saudi firms and a confusion of control with power and authority. We have also noticed an absence of controls in such areas as finance and auditing but also in areas such as cost control, sales control, quality control and in information feedback.

Manpower in Saudi Arabia and Manpower Management

Manpower management is strongly influenced by the societal environment, particularly as it directly involves people. People generally have certain attitudes, values and beliefs which normally differ from one country to another.

Certain sharp patterned differences have been observed between Saudi and British firms, although we found it convenient to distinguish between Saudi Arab-managed firms in Saudi Arabia and Western expatriate-managed firms.

Background factors of the Saudi workforce include:

- 1) its small and inadequate size (29 per cent of total population)
- 2) the virtual absence of women,
- 3) the lack of sufficient skills,
- 4) improper and inadequate utilization,
- 5) 'disguised' unemployment in government,
- 6) general low productivity,
- 7) the high turnover of Saudis in the private sector,
- 8) the negative socio-

psychological attitudes towards semi-skilled and skilled work among the youth.

Features of foreign workforce in Saudi Arabia include:

1) the need for and the consequent presence of 2-3 million foreign workers, 2) the sponsorship law and its ramifications, 3) the work permit and visa red-tape problems of Saudi firms and the exploitation of this area by some merchants, 4) the uncertain policy towards foreign workers, 5) government reservations about the floods of foreigners.

Patterned differences that were strongly environment-related were noted among Saudi and British firms. Thus the personnel function is virtually a neglected or unimportant area in many Saudi firms work and critical areas include employment, recruitment, motivation, incentives and training and development. External environmental influence on employment particularly from government is stronger than is the case with British firms. The manpower supply situation is a critical area in Saudi Arabia. Recruiting and retaining staff and labour is also a critical area for most Saudi firms. Most firms suffered from improper selection. Promotion and appraisal practice was stronger with British firms. Compensation practice in the wider sense involving remuneration packages particular in Arab-managed firms was also inadequate compared with such practice among British firms. This can and does affect the stability of staff. Saudi firms suffer from relatively high turnover of staff. Manpower planning is virtually absent in Saudi

Arabia and is certainly not extensive in the British firms examined. Training and development is non-existent in the majority of Saudi companies. Government-sponsored training and development remains limited and is not attracting sufficient Saudis despite government efforts in this area. This is a very critical area for the future of the Saudi workforce.

There were significant differences between the industrial relations scene in Saudi and British firms including the absence of unions in Saudi Arabia. These also were very much environmentally influenced. Transfer of Western concepts here is difficult if not impossible such concepts have evolved over many years in Britain and under a different political climate from that in Saudi Arabia.

A vital area which is fortunately not too strongly deep-rooted environmentally and can therefore be improved through education in the shorter term is training and development.

Conclusion

In conclusion we feel our investigations were positive towards our main objectives.

The Delphi technique investigation identified some of the critical environmental constraints in Saudi Arabia. Thus the educational-cultural factors were by far the least positive with a very low score rating by the experts. Significant sub-components here include the very low

literacy level, the weak vocational and technical training, the relatively small number of higher-educated Saudis, the lack of significant management development programmes and the mismatch of graduate qualifications with the country's requirements. The sociological-cultural group of factors was the next weakest area in particular low ratings were given to the inter-organizational co-operation of Saudi institutions and the uncertain attitude towards change.

Significant economic constraints include the lack of organized capital markets, the unsatisfactory role of commercial banking relative to business needs, the uncertain state of interest rates and the confused role of the insurance business.

Significant legal-political constraints include, the negative effects of centralization, red tape and bureaucracy and the uncertainty and confusion in industry-government dealings.

The case-study investigation utilizing the Negandhi-Prasad framework also helped in the identification of patterned differences between management practices in Saudi Arabia and Britain and in confirming that some management practice is affected by and differs with the societal environment.

In the section dealing with company interactions with external agencies we noted in Saudi firms greater direct owner involvement, greater unhappy bureaucratic interaction with Government, negligible company interaction with industry

and competition and little community interaction. Saudi company interactions with distributors, customers and suppliers also displayed short-sighted short-term objectives.

In the area of organization, patterned differences were also noted which we believe can be related to societal environmental differences. The causes for such differences in some cases (e.g. the authoritarian non-delegating characteristics) are too deep-rooted and thus the direct import and adaptation of western organizational concepts in the short-term may prove difficult and even dysfunctional. Significant patterned differences noted include the concept of authority and its practice and consequently the concept of delegation, decentralization and leadership.

In the area of planning, significant patterned differences noted include the apparent little importance attached to planning in general in Saudi firms.

The control function also showed sharp differences in conception and practice between Saudi and British firms. There was a misconception in Saudi firms of the control function and a confusion of control with power and authority. Knowledge of control methods, techniques and tools was lacking in Saudi firms.

Manpower management, involving more directly people's values, attitudes and beliefs, showed sharp contrasts between the Saudi and British firms in the sample.

Saudi firms did not seem to give the function sufficient consideration. Other significant differences noted include the unique manpower supply situation in Saudi Arabia, with its national shortages and its dependance on foreign labour and the consequences for the individual firm, the unsatisfactory recruiting and selection practices of the Saudi firms, the lack of significant training and development particularly in the private sector, the lack of trade unions and collective bargaining, the lack of manpower planning, the opportunistic attitude to compensation and employee benefits by the Saudi firms, the relatively higher turnover of staff at the Saudi firms.

The cases of such differences are strongly environment-related and as with organization the transfer of Western concepts in this area in the short-term is we feel very difficult.

Thus the case studies have shown that some patterned differences in management practices between Saudi and British firms do exist. Such differences can also be related to societal environment.

Consequently the wholesale transfer of Western management know-how is not to be recommended and imported 'know-how' will need adapting.

In fact there seems to be a consensus today that the issue is one of varying degrees of universality and transferability of management concepts and techniques, the transfer being

dependant on the concepts themselves, the two countries involved and the time dimension.

Some concepts and techniques require little or no modification on transfer, some require moderate modification and some require major modification or cannot or should not be transferred at all and or would need a longer period before such concepts are ready for transfer.

Finally we found the Farmer-Richman Delphi technique for arriving at the educated guesses of experts very interesting and useful. Apart from the need to chase some of the Saudi experts for their completed forms we found the technique easy to apply. Some of the questions however needed clarification and amending before being sent out.

The Negandhi-Prasad investigative guide however although excellent and very comprehensive was somewhat impractical in field case application. This was due to the fact that interview time was never sufficient for going through the very detailed guide. This was overcome in subsequent interviews by making advance notes beforehand and leaving the guide behind more as a theoretical or mental reference guide. We suggest therefore that future researchers should attempt an abbreviated form of the guide to facilitate interviewing.

We also underated the problems involved in matching company pairs in size technology and product and ownership between a developed and a developing country. Furthermore much

time and patience were involved in gaining approvals from companies for the conduct of the research. Somehow excellent case studies in one country were wasted when the equivalent firm proved unsatisfactory. We would therefore recommend more realistic time to be allowed in this area by future researchers.

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CHAPTER VIII

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